

**ANZ BANK NEW ZEALAND LIMITED
ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT**

FOR THE YEAR ENDED 30 SEPTEMBER 2016
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ANNUAL REPORT AND REGISTERED BANK DISCLOSURE STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

CONTENTS

Annual Report and Glossary of Terms	2	<i>Non-Financial Assets</i>	
		24. Other Assets	47
		25. Goodwill and Other Intangible Assets	47
Consolidated Financial Statements		<i>Non-Financial Liabilities</i>	
Income Statement	3	26. Payables and Other Liabilities	47
Statement of Comprehensive Income	3	27. Provisions	47
Balance Sheet	4		
Cash Flow Statement	5	<i>Equity</i>	
Statement of Changes in Equity	6	28. Share Capital	48
		29. Capital Adequacy	49
Notes to the Financial Statements		<i>Consolidation and Presentation</i>	
<i>Basis of Preparation</i>		30. Subsidiaries	58
1. Significant Accounting Policies	7	31. Structured Entities, Transferred Financial Assets, Fiduciary Activities and Insurance	59
2. Critical Estimates and Judgements Used in Applying Accounting Policies	12		
		<i>Other Disclosures</i>	
<i>Financial Performance</i>		32. Related Party Disclosures	61
3. Net Interest Income	14	33. Capital Expenditure and Operating Lease Commitments	63
4. Non Interest Income	14	34. Compensation of Auditors	63
5. Operating Expenses	15	35. Concentrations of Credit Risk to Individual Counterparties	64
6. Income Tax	16	36. Risk Management Framework	65
7. Segment Analysis	17		
8. Notes to the Cash Flow Statements	19	Other Registered Bank Disclosures	
		Historical Summary of Financial Statements	67
<i>Financial Assets</i>		General Disclosures	68
9. Cash	20	Conditions of Registration	70
10. Trading Securities	20	Directorate and Auditor	74
11. Derivative Financial Instruments	20		
12. Available-for-sale Assets	22	Directors' Statement	76
13. Net Loans and Advances	22		
14. Provision for Credit Impairment	23	Independent Auditor's Report	77
<i>Financial Liabilities</i>			
15. Deposits and Other Borrowings	24		
16. Debt Issuances	24		
17. Subordinated Debt	25		
<i>Financial Instrument Disclosures</i>			
18. Financial Risk Management	27		
19. Classification of Financial Instruments and Fair Value Measurements	41		
20. Maturity Analysis of Assets and Liabilities	43		
21. Assets Charged as Security for Liabilities and Collateral Accepted as Security for Assets	44		
22. Offsetting	45		
23. Credit Related Commitments, Guarantees and Contingent Liabilities	46		

ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Bank has agreed that the Annual Report of the Banking Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2016 and the audit report on those financial statements.

For and on behalf of the Board of Directors:



John Judge
Chairman
18 November 2016



David Hisco
Executive Director
18 November 2016

GLOSSARY OF TERMS

In this Registered Bank Disclosure Statement (Disclosure Statement) unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

the Order means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014.

Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

INCOME STATEMENT

	Note	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Interest income	3	6,423	6,926
Interest expense	3	3,421	4,051
Net interest income		3,002	2,875
Net trading gains	4	12	262
Net funds management and insurance income	4	414	385
Other operating income	4	421	523
Share of associates' profit		5	5
Operating income		3,854	4,050
Operating expenses	5	1,599	1,512
Profit before credit impairment and income tax		2,255	2,538
Credit impairment charge	14	150	74
Profit before income tax		2,105	2,464
Income tax expense	6	570	681
Profit after income tax		1,535	1,783

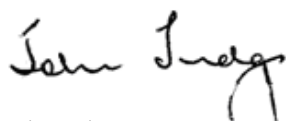
STATEMENT OF COMPREHENSIVE INCOME

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Profit after income tax	1,535	1,783
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial gain / (loss) on defined benefit schemes	18	(32)
Income tax credit / (expense) relating to items not reclassified	(5)	9
Total items that will not be reclassified to profit or loss	13	(23)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Unrealised gains recognised directly in equity	91	12
Realised losses / (gains) transferred to the income statement	9	(16)
Income tax credit / (expense) relating to items that may be reclassified	(28)	1
Total items that may be reclassified subsequently to profit or loss	72	(3)
Total comprehensive income for the year	1,620	1,757

BALANCE SHEET

	Note	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Assets			
Cash	9	2,274	2,380
Settlement balances receivable		396	309
Collateral paid		2,310	1,929
Trading securities	10	11,979	12,139
Investments backing insurance contract liabilities		119	151
Derivative financial instruments	11	21,110	17,658
Available-for-sale assets	12	2,859	1,428
Net loans and advances	13	114,623	106,357
Other assets	24	701	740
Life insurance contract assets		630	552
Investments in associates		7	4
Premises and equipment		387	388
Goodwill and other intangible assets	25	3,424	3,492
Total assets		160,819	147,527
Interest earning and discount bearing assets		134,489	124,785
Liabilities			
Settlement balances payable		1,771	1,844
Collateral received		529	1,687
Deposits and other borrowings	15	99,066	90,678
Derivative financial instruments	11	21,956	17,230
Current tax liabilities		21	87
Deferred tax liabilities	6	145	124
Payables and other liabilities	26	1,119	1,487
Provisions	27	206	191
Debt issuances	16	20,014	19,403
Subordinated debt	17	3,282	2,343
Total liabilities		148,109	135,074
Net assets		12,710	12,453
Equity			
Share capital	28	8,888	8,888
Reserves		62	(10)
Retained earnings		3,760	3,575
Total equity		12,710	12,453
Interest and discount bearing liabilities		115,961	108,629

For and on behalf of the Board of Directors:



John Judge
Chairman
18 November 2016



David Hisco
Executive Director
18 November 2016

CASH FLOW STATEMENT

	Note	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Cash flows from operating activities			
Interest received		6,443	6,857
Dividends received		2	89
Net funds management and insurance income		332	303
Fees and other income received		642	662
Interest paid		(3,416)	(3,985)
Operating expenses paid		(1,495)	(1,387)
Income taxes paid		(648)	(587)
Cash flows from operating profits before changes in operating assets and liabilities		1,860	1,952
Net changes in operating assets and liabilities:			
Change in settlements receivable		(19)	4
Change in collateral paid		(381)	(1,146)
Change in trading securities		164	(208)
Change in derivative financial instruments		(2,028)	2,837
Change in available-for-sale assets		(1,381)	(634)
Change in insurance investment assets		32	39
Change in loans and advances		(9,435)	(12,198)
Proceeds from sale of loans and advances to NZ Branch		697	1,891
Change in settlements payable		(67)	519
Change in collateral received		(1,158)	887
Change in deposits and other borrowings		9,142	6,511
Net changes in operating assets and liabilities		(4,434)	(1,498)
Net cash flows provided by / (used in) operating activities	8	(2,574)	454
Cash flows from investing activities			
Proceeds from sale of premises and equipment		17	-
Proceeds from sale of insurance policies		23	-
Purchase of intangible assets		(29)	(73)
Purchase of premises and equipment		(71)	(59)
Net cash flows used in investing activities		(60)	(132)
Cash flows from financing activities			
Proceeds from issue of debt issuances		7,380	4,212
Proceeds from issue of subordinated debt		938	1,497
Proceeds from issue of ordinary shares		-	675
Redemptions of debt issuances		(4,477)	(4,008)
Redemptions of subordinated debt		-	(297)
Dividends paid		(1,363)	(1,760)
Net cash flows provided by financing activities		2,478	319
Net increase / (decrease) in cash and cash equivalents		(156)	641
Cash and cash equivalents at beginning of the year		2,471	1,830
Cash and cash equivalents at end of the year	8	2,315	2,471

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ\$m	Available- for-sale revaluation reserve NZ\$m	Cash flow hedging reserve NZ\$m	Retained earnings NZ\$m	Total equity NZ\$m
As at 1 October 2014		8,213	-	(7)	3,575	11,781
Profit after income tax		-	-	-	1,783	1,783
Unrealised gains recognised directly in equity		-	-	12	-	12
Realised gains transferred to the income statement		-	-	(16)	-	(16)
Actuarial loss on defined benefit schemes		-	-	-	(32)	(32)
Income tax credit on items recognised directly in equity		-	-	1	9	10
Total comprehensive income for the year		-	-	(3)	1,760	1,757
Ordinary shares issued	28	675	-	-	-	675
Ordinary dividend paid	28	-	-	-	(1,745)	(1,745)
Preference dividend paid	28	-	-	-	(15)	(15)
As at 30 September 2015		8,888	-	(10)	3,575	12,453
Profit after income tax		-	-	-	1,535	1,535
Unrealised gains / (losses) recognised directly in equity		-	(2)	93	-	91
Realised losses transferred to the income statement		-	2	7	-	9
Actuarial gain on defined benefit schemes		-	-	-	18	18
Income tax expense on items recognised directly in equity		-	-	(28)	(5)	(33)
Total comprehensive income for the year		-	-	72	1,548	1,620
Ordinary dividend paid	28	-	-	-	(1,350)	(1,350)
Preference dividend paid	28	-	-	-	(13)	(13)
As at 30 September 2016		8,888	-	62	3,760	12,710

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Order. The Banking Group's financial statements are for the Bank's consolidated group, which includes its subsidiaries and associates.

These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable profit-oriented entities
- International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates are reviewed on an ongoing basis.

(iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments
- available-for sale financial assets
- financial instruments held for trading
- financial instruments designated at fair value through profit and loss.

(iv) Rounding

The amounts in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

(v) Principles of consolidation

Subsidiaries

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Banking Group when it is determined that control over the entity exists. Control is deemed to exist when the Banking Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is assessed by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgements involved in assessing control has been provided in note 2.

The effect of all transactions between entities in the Banking Group is eliminated.

Associates

The Banking Group applies the equity method of accounting for associates.

(vi) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The Banking Group's financial statements are presented in New Zealand dollars, which is the Banking Group's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the income statement in the period in which they arise.

(b) Income recognition

(i) Interest income

Interest income is recognised as it accrues using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability so as to achieve a constant yield on the financial asset or liability.

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience. This is assessed on a regular basis.

(ii) Fee and commission income

Fees and commissions received that are integral to the effective interest rate of a financial asset are recognised using the effective interest method. For example, loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are

NOTES TO THE FINANCIAL STATEMENTS

recognised as income over the period the service is provided.

(c) Expense recognition

(i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the income statement as it accrues using the effective interest method.

(ii) Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers and certain customer incentive payments in respect of originating lending business
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the issue of a financial asset.

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the effective yield of the financial asset over its expected life using the effective interest method.

(d) Income tax

(i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(ii) Current tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(iii) Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credit can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would

follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

(iv) Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

(e) Assets

Financial assets

(i) Financial assets and liabilities at fair value through profit or loss

Purchases and sales of trading securities are recognised on trade date.

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Trading securities are initially recognised and subsequently measured in the balance sheet at their fair value.

Derivatives that are not effective accounting hedging instruments are carried at fair value through profit or loss.

In addition, certain financial assets and liabilities are designated and measured at fair value through profit or loss where any of the following applies:

- the asset represents investments backing insurance policy liabilities
- where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases
- a group of financial assets or financial liabilities or both is managed and its performance evaluated on a fair value basis
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Changes in the fair value (gains or losses) of these financial instruments are recognised in the income statement in the period in which they occur.

(ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price index or other variables. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons) or for hedging purposes (where the derivative instruments are used to hedge the Banking Group's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at

NOTES TO THE FINANCIAL STATEMENTS

fair value being recognised in the income statement. Valuation adjustments are integral in determining the fair value of derivatives. This includes a credit valuation adjustment (CVA) to reflect the credit worthiness of the counterparty and funding valuation adjustment (FVA) to account for the funding cost inherent in the portfolio.

Where the derivative is effective as a hedging instrument and designated as such, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation. These hedging designations and associated accounting are as follows:

Fair value hedge

Where the Banking Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge

The Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment, or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedges is recognised initially in other comprehensive income and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion is recognised immediately in the income statement. When the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

When a forecast hedged transaction is no longer expected to occur, the amount deferred in equity is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of the Banking Group are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in net interest income. The remainder of the fair value movement is included in other income.

(iii) Available-for-sale assets

Purchases and sales of available-for-sale financial assets are recognised on trade date, being the date on which the Banking Group commits to purchase or sell the asset.

Available-for-sale assets comprise non-derivative financial assets which the Banking Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments and debt securities.

They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve. When the asset is sold, the cumulative gain or loss relating to the asset is transferred to the income statement.

(iv) Net loans and advances

Net loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Banking Group provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, unless specifically designated on initial recognition at fair value through profit or loss.

All loans are graded according to the level of credit risk.

Net loans and advances include direct finance provided to customers such as bank overdrafts, credit cards, term loans and finance lease receivables.

Impairment of loans and advances

Loans and advances are reviewed at least at each reporting date for impairment.

Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events, that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value loans) and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

The estimated impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present

NOTES TO THE FINANCIAL STATEMENTS

value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income.

Impairment of capitalised acquisition expenses is assessed through comparing the actual behaviour of the portfolio against initial expected life assumptions.

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectible, either partially or in full, it is written off against the related provision for loan impairment. Unsecured facilities are normally written-off when they become 180 days past due or earlier in the event of the customer's bankruptcy or similar legal release from the obligation. However, a certain level of recoveries is expected after the write-off, which is reflected in the amount of the provision for credit losses. In the case of secured facilities, remaining balances are written-off after proceeds from the realisation of collateral have been received, if there is a shortfall.

Impairment losses recognised in previous periods are reversed in the income statement if the estimate of the loss subsequently decreases.

A provision is also raised for off-balance sheet items such as commitments that are considered to be onerous.

(v) Lease receivables

Contracts to lease assets and hire purchase agreements are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. All other lease contracts are classified as operating leases.

(vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Banking Group, and a counterparty liability is disclosed under deposits and other borrowings. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Banking Group does not acquire the risks and rewards of ownership, are recorded as cash or net loans and advances if original maturity is greater than 90 days. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

(vii) Derecognition

The Banking Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all or a portion of the risks and rewards of the transferred assets. If all, or substantially all, the risks and

rewards are retained, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Banking Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Banking Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

Non-financial assets

(viii) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. Goodwill is recognised as an asset and not amortised, but is assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. This involves using the discounted cash flows methodology to determine the expected future benefits of the cash-generating units to which the goodwill relates. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to the income statement. Any impairment of goodwill is not subsequently reversed.

(f) Liabilities

Financial liabilities

(i) Deposits and other borrowings

Deposits and other borrowings include certificates of deposit, interest bearing deposits, UDC secured investments, commercial paper and other related interest and non-interest bearing financial instruments. Deposits and other borrowings, excluding commercial paper, are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost. The interest expense is recognised using the effective interest method. Commercial paper is designated at fair value through profit or loss, with fair value movements recorded directly in the income statement, which reflects the basis on which it is managed.

(ii) Debt issuances and subordinated debt

Debt issuances and subordinated debt are accounted for in the same way as deposits and other borrowings.

(iii) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given (typically this is the premium received). Subsequent to initial recognition, the Banking Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These

NOTES TO THE FINANCIAL STATEMENTS

estimates are determined based on experience of similar transactions and history of past losses.

(iv) Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(g) Equity

(i) Shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

(ii) Reserves

Available-for-sale revaluation reserve

This reserve includes changes in the fair value of available-for-sale financial assets, net of tax. These changes are transferred to the income statement (in other operating income) when the asset is derecognised or impaired.

Cash flow hedging reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement.

(h) Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in either of the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

(ii) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Segment reporting

Operating segments are distinguishable components of the Banking Group that provide products or services that are subject to risks and rewards that are different to those of other operating segments. The Banking Group operates predominately in the banking industry within New Zealand. The Banking Group has very limited exposure to risk associated with operating in different economic environments or political conditions. On this basis no geographical segment information is provided.

(i) Other

(i) Contingent liabilities

Contingent liabilities are not recognised in the balance sheet but disclosed in note 23 unless it is considered remote that

the Banking Group will be liable to settle the possible obligation.

(ii) Accounting Standards not early adopted

The following standards were available for early adoption but have not been applied in these financial statements.

Standards and amendments effective for periods commencing after 1 January 2018

NZ IFRS 9 *Financial Instruments*

The External Reporting Board (XRB) issued the final version of NZ IFRS 9 *Financial Instruments* in September 2014. When operative, this standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 is not mandatorily effective for the Banking Group until 1 October 2018. The Banking Group is in the process of assessing the impact of application of NZ IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

Standards and amendments effective for periods commencing after 1 January 2019

NZ IFRS 16 *Leases*

The XRB issued the final version of NZ IFRS 16 *Leases* in February 2016. NZ IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. NZ IFRS 16 is not mandatorily effective for the Banking Group until 1 October 2019. The Banking Group is in the process of assessing the impact of application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

There are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements is set out below.

Critical accounting estimates and assumptions

Credit provisioning

The accounting policy relating to measuring the impairment of loans and advances requires the Banking Group to assess impairment at least at each reporting date. The credit provisions raised (collective and individual) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on the reliability of the provision.

Individual and collective provisioning involves the use of assumptions for estimating the amounts and timing of expected future cash flows. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are revised regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 14 for details of credit impairment provisions.

Critical judgements in applying the Banking Group's accounting policies

Financial instruments at fair value

The Banking Group's financial instruments measured at fair value are stated in note 1(a)(iii). In estimating fair value the Banking Group uses, wherever possible, quoted market prices in an active market for the financial instrument.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. The selection of appropriate valuation techniques, methodology and inputs requires judgement. These are reviewed and updated as market practice evolves.

Derivatives and hedging

The Banking Group buys and sells derivatives as part of its trading operations and to hedge its interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions.

A hedging instrument is a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that: (a) exposes the Banking Group to the risk of changes in fair value or future cash flows; and (b) is designated as being hedged.

Judgement is required in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 *Financial Instruments: Recognition and Measurement* does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness in line with current risk management strategies. Hedge ineffectiveness can arise for a number of reasons and whilst a hedge may pass the effectiveness tests above it may not be perfectly effective, leaving some volatility in the income statement.

The majority of outstanding derivative positions are transacted over-the-counter and therefore need to be valued using valuation techniques. Included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA) to reflect the creditworthiness of the counterparty. This is influenced by the mark-to-market of the derivative trades and by the movement in the market cost of credit. Further adjustments are made to account for the funding costs inherent in the derivative. Judgment is required to determine the appropriate cost of funding and the future expected cashflows used in this funding valuation adjustment (FVA).

Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities and are often thinly capitalised with a reliance on debt financing for support.

The Banking Group assesses, at inception and periodically, whether a structured entity should be consolidated based on the accounting policy outlined in note 1. Such assessments are predominantly securitisation activities and involvement with managed funds. When assessing whether the Banking Group controls (and therefore consolidates) a structured entity, judgement is required about whether the Banking Group has power over the relevant activities as well as exposure to variable returns of the structured entity. All involvement, rights and exposure to returns are considered when assessing if control exists.

The Banking Group is deemed to have power over a managed fund when it performs the function of Manager of that managed fund. Whether the Banking Group controls the managed fund depends on whether it holds that power as

NOTES TO THE FINANCIAL STATEMENTS

principal, or as an agent for other investors. The Banking Group is considered the principal, and thus controls the managed fund, when it cannot be easily removed from the position of Manager by other investors and has variable returns through significant aggregate economic interest in that managed fund. In all other cases the Banking Group is considered to be acting in an agency capacity and does not control the managed fund.

Structured entities are consolidated when control exists. In other cases the Banking Group may simply have an interest in or may sponsor a structured entity but not consolidate it.

The Banking Group considers itself the sponsor of an unconsolidated structured entity where it is the primary party involved in the design and establishment of that structured entity and where any of the following apply:

- where the Banking Group is the major user of that structured entity
- the Banking Group's name appears in the name of that structured entity or on its products
- the Banking Group provides implicit or explicit guarantees of that entity's performance.

Goodwill

Refer to note 25 for details of goodwill held by the Banking Group.

The carrying value of goodwill is subject to an impairment test to ensure that the current carrying value does not exceed its recoverable value at the balance sheet date. Any excess of carrying value over recoverable amount is taken to the income statement as an impairment write down.

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Impairment testing of purchased goodwill is performed by comparing the recoverable value of

each cash generating unit with the current carrying amount of its net assets, including goodwill. Judgement is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

The recoverable amount is based on value-in-use calculations. These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and CPI. Cash flows beyond the three year period are extrapolated using a 2% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 30 June 2016 when the last valuation was prepared, a discount rate of 10.9% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the Banking Group's carrying amount to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

3. NET INTEREST INCOME

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Interest income		
<i>Financial assets at fair value through profit or loss</i>		
Trading securities	453	488
<i>Financial assets not at fair value through profit or loss</i>		
Cash	63	94
Available-for-sale assets	64	37
Net loans and advances	5,814	6,277
Other	29	30
	5,970	6,438
Total interest income	6,423	6,926
Interest expense		
<i>Financial liabilities at fair value through profit or loss</i>		
Commercial paper	226	280
<i>Financial liabilities not at fair value through profit or loss</i>		
Deposits and other borrowings	2,310	2,772
Debt issuances	681	855
Subordinated debt	170	112
Other	34	32
	3,195	3,771
Total interest expense	3,421	4,051
Net Interest Income	3,002	2,875

4. NON INTEREST INCOME

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Net trading gains		
Net gain on foreign exchange trading	203	201
Net gain on trading securities	115	384
Net loss on trading derivatives	(306)	(323)
Net trading gains	12	262
Net funds management and insurance income		
Net funds management income	187	165
Net insurance income	227	220
Total funds management and insurance income	414	385
Other operating income		
Lending and credit facility fee income	55	54
Other fee income	675	614
Total fee income	730	668
Direct fee expense	(308)	(264)
Net fee income	422	404
Net loss on financial liabilities designated at fair value	(5)	(1)
Net ineffectiveness on qualifying fair value hedges	1	(8)
Net gain / (loss) on derivatives not qualifying for hedge accounting	(29)	57
Net cash flow hedge gain / (loss) transferred to income statement	(7)	16
Net loss on available for sale securities transferred to income statement	(2)	-
Gain / (loss) on sale of mortgages to NZ Branch	1	1
Other income	40	54
Total other operating income	421	523

NOTES TO THE FINANCIAL STATEMENTS

5. OPERATING EXPENSES

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Personnel		
Salaries and related costs	811	803
Superannuation costs	30	31
Share-based payments expense	21	22
Other	32	20
Total personnel expenses	894	876
Premises		
Depreciation of premises and equipment	32	31
Leasing and rental costs	79	80
Other	41	42
Total premises expenses	152	153
Technology		
Depreciation and amortisation	111	49
Licenses and outsourced services	116	99
Other	58	51
Total technology expenses	285	199
Other		
Advertising and public relations	42	61
Amortisation of other intangible assets	5	5
Freight, stationery, postage and telephone	48	51
Professional Fees	45	37
Travel and entertainment expenses	28	38
Charges from Ultimate Parent Bank	64	64
Other	36	28
Total other expenses	268	284
Total operating expenses	1,599	1,512

Software capitalisation changes

During the year ended 30 September 2016, the Banking Group changed the application of its accounting policy for the capitalisation of expenditure on internally generated software assets effective from 1 October 2015. The change aligns the accounting policy for software assets with the rapidly changing technology landscape and the Banking Group's evolving digital strategy by increasing the threshold for capitalisation of software development costs and directly expensing more project related costs. The change does not affect the Banking Group's total investment in technology but does affect the timing of recognition of costs in the income statement. The impact of the change on the results for the year ended 30 September 2016 was:

- Higher amortisation of NZ\$54 million relating to the accelerated amortisation of software assets where the original cost was below the revised threshold at 1 October 2015. This brings forward amortisation which otherwise would have been recognised in future periods.
- Higher operating expenses of NZ\$56 million relating to software development costs which otherwise would have been capitalised and amortised in future periods.

The change in capitalised software treatment has no impact on regulatory capital ratios.

NOTES TO THE FINANCIAL STATEMENTS

6. INCOME TAX

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	2,105	2,464
Prima facie income tax at 28%	589	690
Imputed and non-assessable dividends	(1)	(3)
Change in tax provisions	(5)	-
Non assessable income and non deductible expenditure	(11)	(6)
Income tax over provided in prior years	(2)	-
Total income tax expense	570	681
Effective tax rate (%)	27.1%	27.6%
Amounts recognised in the income statement		
Current tax	582	607
Deferred tax	(12)	74
Total income tax expense recognised in the income statement	570	681
Imputation credits available	3,566	2,989

The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the New Zealand Resident imputation group and other companies in the the Banking Group that are not in the New Zealand Resident imputation group. The imputation credit balance available includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Deferred tax assets / (liabilities) comprise the following temporary differences:		
Provision for credit impairment	174	171
Premises and equipment, software and intangibles	22	(8)
Provisions and accruals	75	60
Insurance policy assets	(159)	(146)
Financial instruments	(24)	4
Lease finance	(216)	(203)
Other deferred tax assets and liabilities (including tax provisions)	(17)	(2)
Net deferred tax liabilities¹	(145)	(124)

¹ Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same income tax authority on either the same taxable entity or different taxable entities within the same taxable group.

NOTES TO THE FINANCIAL STATEMENTS

7. SEGMENT ANALYSIS

The Banking Group is organised into three major business segments for segment reporting purposes - Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

During the year ended 30 September 2016, Wealth was integrated with Retail, having been disclosed separately previously. Segment reporting has been updated to reflect this change and other minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

Retail provides products and services to Retail, Private Banking, and Business Banking customers via the branch network, mortgage specialists, relationship managers, the contact centre and a variety of self service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Retail and Private Banking customers have personal banking requirements and Business Banking customers consist primarily of small enterprises with annual revenues of less than NZ\$5 million. Core products and services include current and savings accounts, unsecured lending (credit cards, personal loans and overdrafts), home loans secured by mortgages over property, investment products, superannuation and insurance services.

Commercial

Commercial provides services to Commercial & Agri (CommAgri) and UDC customers. CommAgri customers consist of primarily privately owned medium to large enterprises. Commercial's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is principally involved in the financing and leasing of plant, vehicles and equipment, mainly for small and medium sized businesses, as well as investment products.

Institutional

Institutional provides financial services through a number of specialised units to large multi-banked corporations, often global, which require sophisticated product and risk management solutions. Those financial services include loan structuring, foreign exchange, wholesale money market services and transaction banking.

Other

Other includes treasury and back office support functions, none of which constitutes a separately reportable segment.

NOTES TO THE FINANCIAL STATEMENTS

Business segment analysis¹

	Retail	Commercial	Institutional	Other	Total
30/09/2016	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
External interest income	3,456	2,202	756	9	6,423
External interest expense	(1,598)	(333)	(407)	(1,083)	(3,421)
Net intersegment interest	(198)	(981)	19	1,160	-
Net interest income	1,660	888	368	86	3,002
Other external operating income	677	16	113	41	847
Share of associates' profit	5	-	-	-	5
Operating income	2,342	904	481	127	3,854
Operating expenses	1,045	258	181	115	1,599
Profit before credit impairment and income tax	1,297	646	300	12	2,255
Credit impairment charge	58	72	20	-	150
Profit before income tax	1,239	574	280	12	2,105
Income tax expense	336	161	79	(6)	570
Profit after income tax	903	413	201	18	1,535
Other information					
Depreciation and amortisation	12	1	-	135	148
Goodwill	1,109	1,052	1,072	-	3,233
Other intangible assets	118	3	-	70	191
Investment in associates	7	-	-	-	7
Total external assets	69,024	41,639	47,995	2,161	160,819
Total external liabilities	63,604	13,362	40,880	30,263	148,109
30/09/2015					
External interest income	3,474	2,441	1,002	9	6,926
External interest expense	(1,905)	(388)	(498)	(1,260)	(4,051)
Net intersegment interest	(1)	(1,149)	(200)	1,350	-
Net interest income	1,568	904	304	99	2,875
Other external operating income	657	17	360	136	1,170
Share of associates' profit	3	-	-	2	5
Operating income	2,228	921	664	237	4,050
Operating expenses	1,023	257	189	43	1,512
Profit before credit impairment and income tax	1,205	664	475	194	2,538
Credit impairment charge	56	-	18	-	74
Profit before income tax	1,149	664	457	194	2,464
Income tax expense	314	186	126	55	681
Profit after income tax	835	478	331	139	1,783
Other information					
Depreciation and amortisation	20	-	-	65	85
Goodwill	1,109	1,052	1,072	-	3,233
Other intangible assets	138	-	-	121	259
Investment in associates	4	-	-	-	4
Total external assets	61,366	40,561	43,903	1,697	147,527
Total external liabilities	59,933	12,390	38,963	23,788	135,074

¹ Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

NOTES TO THE FINANCIAL STATEMENTS

8. NOTES TO THE CASH FLOW STATEMENT

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities		
Profit after income tax	1,535	1,783
Non-cash items:		
Depreciation and amortisation	148	85
Provision for credit impairment	150	74
Deferred fee revenue and expenses	(7)	(3)
Amortisation of capitalised brokerage / mortgage origination fees	152	123
Amortisation of premiums and discounts	70	60
Fair value gains and losses	31	(263)
Loss on disposal and impairment of premises and equipment and intangibles	4	1
Deferrals or accruals of past or future operating cash receipts or payments:		
Change in net operating assets less liabilities	(4,434)	(1,498)
Change in interest receivable	29	-
Change in interest payable	(43)	(9)
Change in accrued expenses	(71)	13
Change in provisions	15	(13)
Change in life insurance policy assets	(57)	(79)
Change in other receivables and payables	8	2
Change in net income tax assets / liabilities	(78)	94
Dividends from associates in excess of share of profits	(3)	84
Items classified as investing activities:		
Proceeds from sale of insurance policies	(23)	-
Net cash flows provided by / (used in) operating activities	(2,574)	454

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Reconciliation of cash and cash equivalents to the balance sheet		
Cash	2,274	2,380
Amounts included in settlement balances receivable / (payable):		
Nostro accounts	45	108
Overdrawn nostro accounts	(4)	(17)
Total cash and cash equivalents	2,315	2,471

NOTES TO THE FINANCIAL STATEMENTS

9. CASH

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Coins, notes and cash at bank	193	195
Securities purchased under agreements to resell	229	338
Balances with central banks	1,852	1,847
Total cash	2,274	2,380

10. TRADING SECURITIES

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Government securities	5,953	6,555
Corporate and financial institution securities	6,026	5,584
Total trading securities	11,979	12,139

11. DERIVATIVE FINANCIAL INSTRUMENTS

The use of derivatives and their sale to customers as risk management products is an integral part of the Banking Group's trading activities. Derivatives are also used to manage the Banking Group's own exposure to fluctuations in exchange and interest rates as part of its own asset and liability management activities.

Derivatives are subject to the same types of credit and market risk as other financial instruments and the Banking Group manages these risks in a consistent manner.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading.

Derivatives held for trading

The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for the Banking Group's balance sheet risk management.

Trading positions

Trading positions consist of both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in price or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Balance sheet risk management

The Banking Group designates certain balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions as some balance sheet risk management derivatives are classified as held for trading.

NOTES TO THE FINANCIAL STATEMENTS

	30/09/2016			30/09/2015		
	Notional principal amount NZ\$m	Fair values Assets NZ\$m	Liabilities NZ\$m	Notional principal amount NZ\$m	Fair values Assets NZ\$m	Liabilities NZ\$m
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	63,895	650	785	76,319	1,625	1,339
Swap agreements	141,306	1,718	3,157	123,744	2,886	3,559
Options purchased	2,379	50	2	1,870	79	3
Options sold	2,248	7	77	1,820	2	46
	209,828	2,425	4,021	203,753	4,592	4,947
Interest rate derivatives						
Forward rate agreements	41,507	1	5	24,743	2	12
Swap agreements	1,178,795	17,910	17,084	1,140,894	12,421	11,479
Futures contracts	78,988	3	46	45,407	12	19
Options purchased	2,366	6	-	1,218	5	-
Options sold	1,603	1	2	827	1	2
	1,303,259	17,921	17,137	1,213,089	12,441	11,512
Commodity derivatives	460	33	32	235	29	29
Total derivatives held for trading	1,513,547	20,379	21,190	1,417,077	17,062	16,488
Derivatives in hedging relationships						
Fair value hedges						
Interest rate swap agreements	34,639	238	386	30,230	230	375
	34,639	238	386	30,230	230	375
Cash flow hedges						
Interest rate swap agreements	18,985	493	380	21,715	366	367
Total derivatives in hedging relationships	53,624	731	766	51,945	596	742
Total derivative financial instruments	1,567,171	21,110	21,956	1,469,022	17,658	17,230

Derivatives in hedging relationships

Fair value hedges

The Banking Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

Gain / (loss) on fair value hedges attributable to the hedged risk	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Gain / (loss) arising from fair value hedges:		
- hedged item	(45)	143
- hedging instrument	46	(151)
Net ineffectiveness on qualifying fair value hedges	1	(8)

Cash flow hedges

The Banking Group's cash flow hedges comprise interest rate swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

Analysis of the cash flow hedging reserve	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Deferred gain / (loss) attributable to hedges of:		
Variable rate loan assets	296	187
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	(234)	(197)
Total cash flow hedging reserve	62	(10)

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur, which is anticipated to take place over the next ten years (2015: ten years).

NOTES TO THE FINANCIAL STATEMENTS

12. AVAILABLE-FOR-SALE ASSETS

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Government securities	1,195	869
Corporate and financial institution securities	1,663	557
Equity and other securities	1	2
Total available-for-sale assets	2,859	1,428

13. NET LOANS AND ADVANCES

		30/09/2016	30/09/2015
	Note	NZ\$m	NZ\$m
Overdrafts ¹		1,133	1,162
Credit card outstandings		1,663	1,688
Term loans - housing ¹		67,298	59,904
Term loans - non-housing		43,651	42,880
Lease receivables		226	236
Hire purchase		1,098	946
Total gross loans and advances		115,069	106,816
Less: Provision for credit impairment	14	(622)	(611)
Less: Unearned income		(211)	(214)
Add: Capitalised brokerage/mortgage origination fees		360	314
Add: Customer liability for acceptances		27	52
Total net loans and advances		114,623	106,357

¹ Comparative amounts have been changed to reclassify revolving credit facilities secured by residential property provided to corporate customers from Overdrafts to Term loans – housing (2015: NZ\$476 million).

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ\$6,020 million as at 30 September 2016 (2015: NZ\$8,011 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

NOTES TO THE FINANCIAL STATEMENTS

14. PROVISION FOR CREDIT IMPAIRMENT

Credit impairment charge / (release)

	30/09/2016				30/09/2015			
	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
New and increased provisions	16	110	111	237	31	107	76	214
Write-backs	(28)	(18)	(30)	(76)	(39)	(19)	(59)	(117)
Recoveries of amounts written off previously	-	(22)	(3)	(25)	(1)	(20)	(8)	(29)
Individual credit impairment charge / (release)	(12)	70	78	136	(9)	68	9	68
Collective credit impairment charge / (release)	1	3	10	14	(1)	9	(2)	6
Credit impairment charge / (release)	(11)	73	88	150	(10)	77	7	74

Movement in provision for credit impairment

	30/09/2016				30/09/2015			
	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Collective provision								
Balance at beginning of the year	77	127	253	457	78	118	255	451
Charge / (release) to income statement	1	3	10	14	(1)	9	(2)	6
Balance at end of the year	78	130	263	471	77	127	253	457
Individual provision								
Balance at beginning of the year	54	9	91	154	72	15	128	215
New and increased provisions net of write-backs	(12)	92	81	161	(8)	88	17	97
Bad debts written off	(2)	(95)	(55)	(152)	(4)	(94)	(54)	(152)
Discount unwind reversal / (discount unwind) ¹	(3)	-	(9)	(12)	(6)	-	-	(6)
Balance at end of the year	37	6	108	151	54	9	91	154
Total provision for credit impairment	115	136	371	622	131	136	344	611

¹ The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

Impaired assets

	30/09/2016				30/09/2015			
	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Balance at beginning of the year	97	32	253	382	189	35	410	634
Transfers from productive	64	129	395	588	89	126	155	370
Transfers to productive	(31)	(8)	(7)	(46)	(69)	(7)	(46)	(122)
Assets realised or loans repaid	(71)	(31)	(244)	(346)	(108)	(28)	(212)	(348)
Write offs	(2)	(95)	(55)	(152)	(4)	(94)	(54)	(152)
Total impaired assets	57	27	342	426	97	32	253	382
Other assets under administration	9	2	-	11	6	1	-	7
Undrawn facilities with impaired customers	-	1	57	58	1	-	14	15

NOTES TO THE FINANCIAL STATEMENTS

15. DEPOSITS AND OTHER BORROWINGS

	Note	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Term deposits		39,665	34,982
On demand and short term deposits		42,323	41,436
Deposits not bearing interest		7,780	6,716
UDC secured investments	21	1,592	1,736
Total customer deposits		91,360	84,870
Certificates of deposit		2,237	745
Commercial paper		5,364	4,964
Securities sold under repurchase agreements		76	47
Deposits from other members of ANZ New Zealand	32	29	52
Total deposits and other borrowings		99,066	90,678

Deposits from customers, except UDC secured investments, are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

16. DEBT ISSUANCES

	Note	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Domestic bonds		3,975	3,525
U.S. medium term notes ¹		6,883	6,831
Euro medium term notes ¹		2,792	3,598
Covered bonds ¹	21, 31	6,218	5,335
Index linked notes		-	35
Total debt issuances		19,868	19,324
Fair value hedge adjustment		192	175
Less debt issuances held by the Bank		(46)	(96)
Total debt issuances		20,014	19,403

¹ These debt issuances are issued by ANZ New Zealand (Int'l) Limited and are guaranteed by the Bank.

Debt issuances, other than covered bonds, are unsecured and rank equally with other unsecured liabilities of the Banking Group.

Domestic bonds includes two series of bonds quoted on the NZX Debt Market which mature on 2 September 2021 and 1 September 2023 respectively (the Bonds). NZX Regulation has granted the Bank a waiver in respect of the Bonds from the requirement in Main Board/Debt Market Listing Rule 5.2.3 (as modified by NZX's ruling on Rule 5.2.3 issued on 29 September 2015) to enable the Bank to apply for quotation of the Bonds on the NZX Debt Market even though the Bonds may not initially be held by at least 100 members of the public holding at least 25% of the Bonds issued. The waiver has been granted for a period of 6 months from the relevant dates of quotation of the Bonds on the NZX Debt Market. The effect of the waiver from NZX Listing Rule 5.2.3 is that initially the Bonds may not be widely held and there may be reduced liquidity in the Bonds. To the extent that there is a material reduction in the spread of the Bonds, the Bank will notify NZX accordingly.

NOTES TO THE FINANCIAL STATEMENTS

17. SUBORDINATED DEBT

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
ANZ Capital Notes¹		
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN) ²	496	494
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)	1,003	1,003
NZD 938m ANZ New Zealand Internal Capital Notes 2 (ANZ NZ ICN2)	938	-
Perpetual subordinated debt		
NZD 835m perpetual subordinated bond ^{2,3}	835	835
AUD 10m perpetual subordinated floating rate loan	10	11
Total subordinated debt	3,282	2,343

¹ These instruments qualify as additional tier 1 capital.

² These instruments are quoted on the NZX Debt Market.

³ These instruments qualify as tier 2 capital under RBNZ's Basel III transitional rules, subject to the RBNZ's Basel III transition adjustment. Refer to note 29 for further details.

Subordinated debt is subordinated in right of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the relevant issuer or drawer of the debt.

ANZ Capital Notes

- On 5 March 2015, the Bank issued 10.03 million convertible notes (ANZ NZ ICN) to the NZ Branch at NZ\$100 each, raising NZ\$1,003 million.
- On 31 March 2015, the Bank issued 500 million convertible notes (ANZ NZ CN) at NZ\$1 each, raising NZ\$500 million before issue costs.
- On 15 June 2016, the Bank issued 9.38 million convertible notes (ANZ NZ ICN2) to the NZ Branch at NZ\$100 each, raising NZ\$938 million.

ANZ Capital Notes (the notes) are fully paid convertible non-cumulative perpetual subordinated notes.

As at 30 September 2016, ANZ NZ CN carried a BBB- credit rating from Standard and Poor's.

The notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) or the Ultimate Parent Bank (ANZ NZ CN).

Interest

Interest on the notes is non-cumulative and payable as follows:

- ANZ NZ ICN: payable semi-annually in arrears in March and September in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 380 basis point margin.
- ANZ NZ CN: payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and thereafter will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin.
- ANZ NZ ICN2: payable semi-annually in arrears in June and December in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 629 basis point margin.

Interest payments are subject to the Bank's absolute discretion and certain payment conditions being satisfied (including RBNZ and APRA (ANZ NZ CN only) requirements). If interest is not paid on the notes the Bank may not, except in limited circumstances,

pay dividends or undertake a share buy-back or other capital reduction on its ordinary shares until interest is next paid.

Conversion features

On 24 March 2025 (ANZ NZ ICN) or 25 May 2022 (ANZ NZ CN) or an earlier date under certain circumstances, the relevant notes will mandatorily convert into a variable number of ordinary shares of the:

- Bank based on the net assets per share in the Bank's most recently published Disclosure Statement (ANZ NZ ICN) or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares over a specified period prior to conversion less a 1% discount (ANZ NZ CN).

The mandatory conversion will be deferred for a specified period if the conversion tests are not met.

The Bank will be required to convert some or all of the notes if a common equity capital trigger event, or an RBNZ or APRA (ANZ NZ CN only) non-viability trigger event occurs. The ANZ NZ ICN and ANZ NZ ICN2 will convert into ordinary shares of the Bank and the ANZ NZ CN will convert into ordinary shares of the Ultimate Parent Bank, subject to a maximum conversion number.

A common equity capital trigger event occurs if the:

- Banking Group's common equity tier 1 capital ratio is equal to or less than 5.125% or
- Overseas Banking Group's Level 2 common equity tier 1 capital ratio is equal to or less than 5.125% (ANZ NZ CN only).

An RBNZ non-viability trigger event occurs if the RBNZ directs the Bank to convert or write off the notes or a statutory manager is appointed to the Bank and decides the Bank must convert or write off the notes. An APRA non-viability trigger event occurs if APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable.

On 25 May 2020 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's and APRA's prior approval), or to convert into ordinary shares of the

NOTES TO THE FINANCIAL STATEMENTS

Ultimate Parent Bank, all or some of the ANZ NZ CN at its discretion on similar terms as mandatory conversion.

On 24 March 2023 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), or to convert into ordinary shares of the Bank, all or some of the ANZ NZ ICN at its discretion on similar terms as mandatory conversion.

On 15 June 2026 and each 5th anniversary thereafter the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), all or some of the ANZ NZ ICN2 at its discretion.

Rights of holders in event of liquidation

The notes rank equally with each other and with the Bank's preference shares and lower than perpetual subordinated debt. Holders of the notes do not have any right to vote in general meetings of the Bank.

Perpetual subordinated debt

Perpetual subordinated debt instruments are classified as debt reflecting an assessment of the key terms and conditions of the instruments, and an assessment of the ability, and likelihood of interest payments being deferred. Certain of these instruments have interrelationships that have been considered in this assessment.

NZD 835,000,000 bond

This bond was issued by the Bank on 18 April 2008.

The Bank may elect to redeem the bond on 18 April 2018 (the Call Date) or any interest payment date subsequent to 18 April 2018. Interest is payable semi-annually in arrears on 18 April and 18 October each year, up to and including the Call Date and then quarterly thereafter. Should the bond not be called at the Call Date, the Coupon Rate from the Call Date onwards will be based on a floating rate equal to the aggregate of the 3 month bank bill rate plus a 300 basis point margin.

As at 30 September 2016, this bond carried a BBB+ rating by Standard and Poor's and an A3 rating by Moody's.

The coupon interest on the bond is 5.28% per annum until 18 April 2018.

AUD 10,000,000 loan

This loan was drawn down by the Bank on 27 March 2013 and has no fixed maturity. Interest is payable semi-annually in arrears on 15 March and 15 September each year. The Bank may repay the loan on any interest payment date after the NZD 835,000,000 bond has been repaid in full.

Coupon interest is based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 240 basis point margin, increasing to the Australian 6 month bank bill rate plus a 440 basis point margin from 15 September 2018.

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

Financial instruments are fundamental to the Banking Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Banking Group. Financial instruments create, modify or reduce the credit, market and liquidity risks of the Banking Group's balance sheet. The Banking Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Banking Group.

The risk management and policy control framework applicable to the entities comprising the Banking Group has been set by the Board and Risk Committee of the Bank or the Ultimate Parent Bank, as appropriate. Likewise oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Bank and also the Ultimate Parent Bank. Throughout this document, references to the Risk Management of the operations within the entities comprising the Banking Group, implicitly involves oversight by both related entities.

Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

The Banking Group has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of the Banking Group are set by the Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including business writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations.

Credit risk management

A credit risk management framework is in place across the Banking Group with the aim of ensuring a structured and disciplined approach is maintained in achieving the objectives set by the Board. The framework focuses on policies, people, skills, controls, risk concentrations and portfolio balance. It is supported by portfolio analysis and business-writing strategies, which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

An independent Risk Management function is staffed by risk specialists. In regard to credit risk management, the objective is for Risk Management to provide robust credit policies, to make independent credit decisions, and to provide strong support to front line staff in the application of sound credit practices. In addition to providing independent credit assessment on lending decisions, Risk Management also performs key roles in portfolio management by development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit standards and policies.

The credit risk management framework is top down. The framework is defined by the Banking Group's credit principles and policies. The effectiveness of the credit risk management framework is validated through the compliance and monitoring processes.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support the business units. All major business unit credit decisions require approval from both business writers and independent risk personnel.

Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent upon the level of risk. Credit risk policy and management is executed through the Chief Risk Officer, who is responsible for various dedicated areas within the Risk Management division. Wholesale Risk services the Banking Group's commercial, investment banking and rural lending activities through dedicated teams. Retail Risk services the Banking Group's small business and consumer customers. The Credit Reporting team within Risk Management provides an independent overview of credit risk across the Bank at a portfolio level. The Banking Group allows sole discretion for transaction approvals at the business unit level in both the retail and wholesale lending sectors, with larger transactions approved by Retail Risk and Wholesale Risk.

Credit risk review function Group Credit Assurance also provides a further independent check mechanism to ensure the quality of credit decisions. This includes providing independent periodic checks on asset quality and compliance with the agreed standards and policies across the Banking Group.

Country risk management

Some customer credit risks involve country risk, whereby actions or events at a national or international level could disrupt servicing of commitments. Country risk arises when payment or discharge of an obligation will, or could, involve the flow of funds from one country to another or involve transactions in a currency other than the domestic currency of the relevant country.

Country ratings are assigned to each country where the Banking Group incurs country risk and have a direct bearing on the Banking Group's risk appetite for each country. The country rating is determined through a defined methodology based around external ratings agencies' ratings and internal specialist opinion. It is also a key risk consideration in the Banking Group's capital pricing model for cross border flows.

The recording of country limits provides the Banking Group with a means to identify and control country risk. Country limits ensure that there is a country-by-country ceiling on exposures that involve country risk. They are recorded by time to maturity and purpose of exposure, e.g., trade, markets and project finance. Country limits are managed centrally by the Ultimate Parent Bank, through a global country risk exposure management system managed by a specialist unit within Institutional Risk.

Portfolio stress testing

Stress testing is integral to strengthening the predictive approach to Risk Management and is a key component to managing risk appetite and business writing strategies. It creates greater understanding of impacts on financial

NOTES TO THE FINANCIAL STATEMENTS

performance through modelling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios.

The Ultimate Parent Bank has a dedicated stress testing team that assists business and risk executives in the Banking Group to model and report periodically to management and the Board Risk Committee on a range of scenarios and stress tests.

Portfolio analysis and reporting

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies.

Businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to Risk Management and business executives through a series of reports including monthly 'asset quality' reporting. This process is undertaken by or overseen by Risk Management ensuring an efficient and independent conduit exists to identify and communicate emerging credit issues to Banking Group executives and the Board.

Collateral management

Banking Group credit principles specify lending only what the counterparty has the capacity and ability to repay and the Banking Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (ie interest and capital repayments). Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. Banking Group policy sets out the types of acceptable collateral, including:

- Cash
- Mortgages over property
- Charges over business assets, eg premises, stock and debtors
- Charges over financial instruments, eg debt securities and equities in support of trading facilities
- Financial guarantees.

In the event of customer default, any loan security is usually held as mortgagee in possession while action is taken to realise it. Therefore the Banking Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The Banking Group uses International Swaps and Derivatives Association Master Agreements (ISDA) to document derivatives' activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Further, it is the Banking Group's preferred practice to include all products covered by the ISDA in the Credit Support Annex (CSA) in order to achieve further credit exposure reduction. Under a CSA, collateral is passed between the parties, depending on the aggregate mark-to-market (positive or negative) of derivative trades between the two entities, to mitigate the market contingent counterparty risk inherent in the outstanding positions.

Concentrations of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Banking Group monitors its portfolios to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks. Risk Management, Business Unit executives and senior management monitor large exposure concentrations through a monthly list of the Banking Group's top corporate exposures. The ANZ Credit and Market Risk Committee and Board Risk Committee regularly review a comprehensive list of single customer concentration limits and customers' adherence to these limits.

Analyses of financial assets by industry sector are based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. Notes on the following tables:

- 1 Government and local authority includes exposures to government administration and defence, education and health and community services.
- 2 Other includes exposures to electricity, gas and water, communications and personal services.
- 3 Net loans and advances exclude individual and collective provisions for credit impairment held in respect of credit related commitments.
- 4 Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

NOTES TO THE FINANCIAL STATEMENTS

	Cash, settlements receivable and collateral paid	Trading securities and available-for- sale assets	Derivative financial instruments	Net loans and advances ³	Other financial assets	Credit related commitments ⁴	Total
30/09/2016	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Industry							
Agriculture	-	-	24	18,510	64	1,189	19,787
Forestry, fishing and mining	-	-	45	776	3	809	1,633
Business and property services	-	-	79	11,292	39	2,865	14,275
Construction	-	-	17	1,492	5	853	2,367
Entertainment, leisure and tourism	-	-	31	1,347	5	361	1,744
Finance and insurance	2,935	7,728	18,692	941	282	1,378	31,956
Government and local authority ¹	1,852	7,030	1,075	1,245	4	1,167	12,373
Manufacturing	-	12	185	3,465	12	1,977	5,651
Personal lending	-	-	-	68,893	238	14,125	83,256
Retail trade	-	-	64	1,966	7	933	2,970
Transport and storage	-	5	91	1,611	6	871	2,584
Wholesale trade	-	-	23	1,617	6	1,561	3,207
Other ²	-	63	784	1,941	7	1,668	4,463
	4,787	14,838	21,110	115,096	678	29,757	186,266
Less: Provision for credit impairment	-	-	-	(518)	-	(104)	(622)
Less: Unearned income	-	-	-	(211)	-	-	(211)
Add: Capitalised brokerage/mortgage origination fees	-	-	-	360	-	-	360
Total financial assets	4,787	14,838	21,110	114,727	678	29,653	185,793
Geography							
New Zealand	2,931	9,681	3,628	112,152	669	29,470	158,531
Overseas	1,856	5,157	17,482	2,575	9	183	27,262
Total financial assets	4,787	14,838	21,110	114,727	678	29,653	185,793
30/09/2015							
Industry							
Agriculture	-	-	23	18,383	73	1,238	19,717
Forestry, fishing and mining	-	-	44	931	4	1,035	2,014
Business and property services	-	1	23	10,816	43	2,798	13,681
Construction	-	-	12	1,342	5	811	2,170
Entertainment, leisure and tourism	-	-	47	1,067	4	268	1,386
Finance and insurance	2,576	6,956	15,140	1,245	335	1,317	27,569
Government and local authority ¹	1,847	6,475	1,338	1,156	5	1,408	12,229
Manufacturing	-	31	417	3,470	14	1,993	5,925
Personal lending	-	-	-	61,374	245	13,798	75,417
Retail trade	-	-	18	2,008	8	1,012	3,046
Transport and storage	-	6	60	1,638	7	759	2,470
Wholesale trade	-	-	17	1,468	6	1,248	2,739
Other ²	-	98	519	1,970	8	1,672	4,267
	4,423	13,567	17,658	106,868	757	29,357	172,630
Less: Provision for credit impairment	-	-	-	(514)	-	(97)	(611)
Less: Unearned income	-	-	-	(214)	-	-	(214)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	314	-	-	314
Total financial assets	4,423	13,567	17,658	106,454	757	29,260	172,119
Geography							
New Zealand	2,527	8,673	3,671	104,178	748	29,077	148,874
Overseas	1,896	4,894	13,987	2,276	9	183	23,245
Total financial assets	4,423	13,567	17,658	106,454	757	29,260	172,119

¹ Government and local authority includes exposures to government administration and defence, education and health and community services.

² Other includes exposures to electricity, gas and water, communications and personal services.

³ Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.

⁴ Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer. The comparative amount for undrawn facilities has been reduced by \$5,518 million following a review of the composition of commitments.

NOTES TO THE FINANCIAL STATEMENTS

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk for on and off balance sheet financial instruments before taking account of the financial effect of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation*.

The table also provides a quantification of the value of the financial charges the Banking Group holds over a borrower's specific asset (or assets) where the Banking Group is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where the collateral held is valued at more than the corresponding credit exposure, the financial effect is capped at the value of the credit exposure. In respect of derivative financial instruments, the assessed collateral is the amount of cash collateral received and does not include the effect of any netting arrangements under ISDAs.

The most common types of collateral include:

- Security over real estate including residential, commercial, industrial and rural property
- Cash deposits
- Other security over business assets including specific plant and equipment, inventory and accounts receivables.

The Banking Group also manages its credit risk by accepting other types of collateral such as guarantees and security interests over the assets of a customer's business. The assignable value of such credit mitigants is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

	30/09/2016			30/09/2015		
	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
On and off-balance sheet positions						
Cash	2,081	229	1,852	2,185	338	1,847
Settlement balances receivable	396	265	131	309	134	175
Collateral paid	2,310	-	2,310	1,929	-	1,929
Trading securities	11,979	-	11,979	12,139	-	12,139
Derivative financial instruments	21,110	529	20,581	17,658	1,687	15,971
Available-for-sale assets	2,859	-	2,859	1,428	-	1,428
Net loans and advances	114,727	104,399	10,328	106,454	95,560	10,894
Other financial assets	678	361	317	757	382	375
Credit related commitments	29,653	15,193	14,460	29,260	14,568	14,692
Total exposure to credit risk	185,793	120,976	64,817	172,119	112,669	59,450

Credit quality

A core component of the Banking Group's credit risk management capability is the risk grading framework used across all major business units. A set of risk grading principles and policies is supported by a complementary risk grading methodology. Pronouncements by the International Basel Committee on Banking Supervision have been encapsulated in these principles and policies, including governance, validation and modelling requirements.

The Banking Group's risk grade profile changes dynamically through new counterparty lending and existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review, including statistical and behavioural reviews in consumer and small business segments, and individual counterparty reviews in segments with larger single name borrowers.

Impairment and provisioning of financial assets

The Banking Group's policy relating to the recognition and measurement of impaired assets conforms to the RBNZ's guidelines.

Loans are classified as either performing or impaired. Impaired assets are credit exposures where: there is doubt as to whether the full contractual amount (including interest) will be received; a material credit obligation is 90 days past due but not well secured; they are portfolio managed and can be held for up to 180 days past due; or concessional terms have been provided due to the financial difficulties of the customer.

An exposure is classified as past due but not impaired (less than 90 days) where the value of collateral is sufficient to repay both the principal debt and all other potential interest or there is no concern as to the creditworthiness of the counterparty in question.

The past due but not impaired (over 90 days) classification applies where contractual payments are past due by 90 days or more, or where the facility remains outside of contractual arrangements for 90 or more consecutive days, but the Banking Group believes that impairment is not appropriate on the basis of the level of security/collateral available, or the facility is portfolio managed.

The provision for credit impairment represents management's best estimate of the losses incurred in the loan portfolio at balance date based on its experienced judgement.

NOTES TO THE FINANCIAL STATEMENTS

Distribution of gross loans and advances assets by credit quality

The credit quality of the portfolio of loans and advances is assessed by reference to the Banking Group's risk grading principles and policies supported by a complementary risk grading methodology.

	30/09/2016				30/09/2015			
	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Strong risk rating	57,203	1,263	20,248	78,714	49,020	1,285	23,051	73,356
Satisfactory risk rating	6,335	2,997	22,309	31,641	6,754	3,021	19,192	28,967
Substandard but not past due or impaired	325	539	1,928	2,792	575	382	1,389	2,346
Total neither past due nor impaired	63,863	4,799	44,485	113,147	56,349	4,688	43,632	104,669
Past due but not impaired:								
1 to 5 days	337	125	350	812	297	110	454	861
6 to 29 days	131	73	42	246	188	92	99	379
1 to 29 days	468	198	392	1,058	485	202	553	1,240
30 to 59 days	109	32	62	203	101	37	88	226
60 to 89 days	82	17	6	105	73	18	11	102
90 days and over	81	26	23	130	103	32	62	197
Total past due but not impaired	740	273	483	1,496	762	289	714	1,765
Total impaired assets	57	27	342	426	97	32	253	382
Gross loans and advances	64,660	5,099	45,310	115,069	57,208	5,009	44,599	106,816

Credit quality of gross loans and advances neither past due nor impaired

The credit quality of financial assets is assessed by the Banking Group using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal ratings

Strong risk rating - Corporate customers demonstrating superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. Retail customers with low expected loss. This rating band broadly corresponds to ratings "Aaa" to "Ba1" and "AAA" to "BB+" of Moody's Investors Service and Standard & Poor's respectively.

Satisfactory risk rating - Corporate customers consistently demonstrating sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. Retail customers with moderate expected loss. This rating band broadly corresponds to ratings "Ba2" to "B1" and "BB" to "B+" of Moody's Investors Service and Standard & Poor's respectively.

Substandard but not past due or impaired - Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B2" to "Caa" and "B" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

Movements in the rating categories between balance dates are due to both changes in the underlying internal ratings applied to customers and to new loans written or loans rolling off.

Credit quality of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by the Banking Group to measure and manage credit quality. Financial assets that are past due but not impaired include those:

- Assessed, approved and managed on a portfolio basis within a centralised environment (for example, credit cards and personal loans)
- Held on a productive basis until they are 180 days past due
- Managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

NOTES TO THE FINANCIAL STATEMENTS

Market risk

Market risk is the risk to the Banking Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. Market risk is generated through both trading activities and the interest rate risk inherent in the banking book.

The Banking Group conducts trading operations in interest rates, foreign exchange, commodities and debt securities.

The Banking Group has a detailed risk management and control framework to support its trading and balance sheet management activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios. This approach, and related analysis, identifies the range of possible outcomes that can be expected over a given period of time, establishes the relative likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

Market risk management and control responsibilities

The Board Risk Committee has delegated responsibility for the oversight of market risk to the Asset & Liability Committee (ALCO), chaired by the Chief Financial Officer of the Bank. ALCO is required to ensure that market risk exposure across Traded and Non-Traded portfolios remains within the risk appetite specified by the Board Risk Committee. ALCO receives regular reporting on a range of trading and balance sheet market risk exposures.

The Risk Management division of the Banking Group, through the Chief Risk Officer, is responsible for the day-to-day oversight of market risk. This includes the implementation of a comprehensive limit and policy framework to control the amount of risk that the Banking Group will accept. Market risk limits are allocated at various levels and are reported and monitored on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (e.g., interest rates, foreign exchange), risk factors (e.g., interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Additional oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Ultimate Parent Bank.

Within overall strategies and policies, the control of market risk is the joint responsibility of business units and Risk Management, with the delegation of market risk limits from the Board Risk Committee to both Risk Management and the business units.

These risks are monitored daily against a comprehensive limit framework that includes Value at Risk, aggregate market position and sensitivity, product and geographic thresholds. To facilitate the management, control, measurement and reporting of market risk, the Banking Group has grouped market risk into two broad categories:

a. *Traded market risk*

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. They arise in trading transactions where the Banking Group acts as principal with clients or with the market. The primary risk categories monitored are:

- Currency risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- Interest rate risk is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Credit spread risk is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a bench mark.

b. *Non-traded market risk (or balance sheet risk)*

This comprises the management of non-traded interest rate risk, liquidity, and the risk to capital and earnings as a result of movements in market rates.

Some instruments do not fall into either category but also expose the Banking Group to market risk. These include equity securities classified as available-for-sale. Regular reviews are performed to substantiate the valuation of these types of instruments.

In all trading areas the Banking Group has implemented models that calculate Value at Risk ("VaR") exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios.

VaR measure

A key measure of market risk is VaR. VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely there is 1% probability of the decrease in market value exceeding the VaR estimate on any given day.

The Banking Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Banking Group calculates VaR using historical changes in market rates and prices over the previous 500 business days. Traded and Non-Traded VaR is calculated using a one-day holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Banking Group could experience from an extreme market event. As a result of this limitation, the Banking Group utilises a number of other risk measures (e.g. stress testing) and associated detailed control limits to measure and manage market risk.

NOTES TO THE FINANCIAL STATEMENTS

Traded market risks

	30/09/2016				30/09/2015			
	Value at risk at 99% confidence				Value at risk at 99% confidence			
	Period end	High for	Low for	Average for	Period end	High for	Low for	Average for
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Foreign exchange risk	0.2	0.9	0.1	0.4	0.6	1.1	-	0.3
Interest rate risk	2.1	4.9	1.3	2.6	2.4	5.1	1.0	2.1
Credit spread risk	0.5	0.7	0.3	0.5	0.7	0.7	0.2	0.4
Diversification benefit	(0.7)	n/a	n/a	(1.0)	(2.0)	n/a	n/a	(0.7)
Total VaR	2.1	4.4	1.3	2.5	1.7	4.9	1.0	2.1

Traded market risk VaR is calculated separately for foreign exchange and for interest rate/debt markets businesses as well as for the Banking Group. The diversification benefit reflects the historical correlation between foreign exchange, interest rate and debt markets.

To supplement the VaR methodology, the Banking Group applies a wide range of stress tests, both on individual portfolios and at the Banking Group level. The Banking Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the Banking Group.

Non-traded market risk (or balance sheet risk)

The principal objectives of balance sheet management are to manage net interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of the Banking Group's capital. Liquidity risk is dealt with in the next section.

Interest rate risk

The objective of balance sheet interest rate risk management is to mitigate the negative impact of movements in wholesale interest rates on the earnings of the Banking Group's banking book. Non-traded interest rate risk relates to the potential adverse impact to earnings from changes in market interest rates. This risk arises from two principal sources: mismatches between the repricing dates of interest bearing assets and liabilities; and the investment of capital and other non-interest bearing liabilities in interest bearing assets.

As part of normal business activity the Banking Group has additional risks from fixed rate mortgage prepayments and basis risk:

- Prepayment risk is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate loan and where any customer fee charged is not sufficient to offset the loss in value to the Banking Group of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation.
- Basis risk is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

Non-traded interest rate risk is managed to both value and earnings at risk limits. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and interest rate sensitivity gap. This treatment excludes the effect of prepayment and basis risk.

a. Non-traded interest rate risk VaR

	Period end	High for	Low for	Average for
	NZ\$m	year	year	year
		NZ\$m	NZ\$m	NZ\$m
30/09/2016				
Value at risk at 99% confidence	9.7	10.3	7.7	8.9
30/09/2015				
Value at risk at 99% confidence	7.4	12.4	7.3	10.1

NOTES TO THE FINANCIAL STATEMENTS

b. Scenario analysis – a 1% shock on the next 12 months' net interest income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and comparative periods – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

	30/09/2016	30/09/2015
Impact of 1% rate shock		
Period end	0.4%	1.7%
Maximum exposure	1.6%	2.3%
Minimum exposure	-0.2%	0.2%
Average exposure (in absolute terms)	0.7%	1.1%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income.

Interest rate sensitivity gap

The interest rate sensitivity gap analysis provides information about the Banking Group's exposure to interest rate risk.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions.

The following tables represent the interest rate sensitivity of the Banking Group's assets, liabilities and off balance sheet instruments by showing the periods in which these instruments may reprice (that is, when interest rates applicable to each asset or liability can be changed).

The repricing gaps are based upon contractual repricing.

30/09/2016	Total NZ\$m	Up to 3 months NZ\$m	Over 3 to 6 months NZ\$m	Over 6 to 12 months NZ\$m	Over 1 to 2 years NZ\$m	Over 2 years NZ\$m	Not bearing interest NZ\$m
Assets							
Cash	2,274	2,081	-	-	-	-	193
Settlement balances receivable	396	48	-	-	-	-	348
Collateral paid	2,310	2,310	-	-	-	-	-
Trading securities	11,979	1,092	243	308	2,090	8,246	-
Derivative financial instruments	21,110	-	-	-	-	-	21,110
Available-for-sale assets	2,859	1,956	149	50	160	543	1
Net loans and advances	114,623	61,267	8,256	18,483	18,677	8,411	(471)
Other financial assets	678	65	25	17	12	-	559
Total financial assets	156,229	68,819	8,673	18,858	20,939	17,200	21,740
Liabilities							
Settlement balances payable	1,771	666	-	-	-	-	1,105
Collateral received	529	529	-	-	-	-	-
Deposits and other borrowings	99,066	65,416	11,986	10,120	2,460	1,302	7,782
Derivative financial instruments	21,956	-	-	-	-	-	21,956
Debt issuances	20,014	4,342	-	1,087	2,843	11,742	-
Subordinated debt	3,282	938	1,013	-	835	496	-
Other financial liabilities	639	53	-	-	9	124	453
Total financial liabilities	147,257	71,944	12,999	11,207	6,147	13,664	31,296
Hedging instruments							
	-	17,376	(13,314)	5,850	(11,914)	2,002	-
Interest sensitivity gap	8,972	14,251	(17,640)	13,501	2,878	5,538	(9,556)

NOTES TO THE FINANCIAL STATEMENTS

30/09/2015	Total NZ\$m	Up to 3 months NZ\$m	Over 3 to 6 months NZ\$m	Over 6 to 12 months NZ\$m	Over 1 to 2 years NZ\$m	Over 2 years NZ\$m	Not bearing interest NZ\$m
Assets							
Cash	2,380	2,185	-	-	-	-	195
Settlement balances receivable	309	141	-	-	-	-	168
Collateral paid	1,929	1,929	-	-	-	-	-
Trading securities	12,139	1,280	731	789	863	8,476	-
Derivative financial instruments	17,658	-	-	-	-	-	17,658
Available-for-sale assets	1,428	1,178	-	-	-	248	2
Net loans and advances	106,357	57,459	6,373	15,238	19,900	7,844	(457)
Other financial assets	757	-	113	33	-	5	606
Total financial assets	142,957	64,172	7,217	16,060	20,763	16,573	18,172
Liabilities							
Settlement balances payable	1,844	871	-	-	-	-	973
Collateral received	1,687	1,687	-	-	-	-	-
Deposits and other borrowings	90,678	61,191	9,586	9,507	2,103	1,575	6,716
Derivative financial instruments	17,230	-	-	-	-	-	17,230
Debt issuances	19,403	6,001	1,587	-	2,498	9,317	-
Subordinated debt	2,343	-	1,014	-	-	1,329	-
Payables and other liabilities	962	101	-	-	6	256	599
Total financial liabilities	134,147	69,851	12,187	9,507	4,607	12,477	25,518
Hedging instruments							
Interest sensitivity gap	-	34,623	(20,949)	(1,214)	(11,354)	(1,106)	-
Interest sensitivity gap	8,810	28,944	(25,919)	5,339	4,802	2,990	(7,346)

Foreign currency related risks

This risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates.

For non-traded instruments in foreign currencies, the risk is monitored and is hedged in accordance with policy. Risk arising from individual funding and other transactions is actively managed. The total amounts of unmatched foreign currency assets and liabilities, and consequent foreign currency exposures arising from each class of financial asset and liability, whether recognised or unrecognised, within each currency are not material.

The net open position in each foreign currency represents the net on-balance sheet assets and liabilities in that foreign currency aggregated with the net expected future cash flows from off-balance sheet purchases and sales from foreign exchange transactions in that foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at balance sheet date.

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Net open position		
Australian dollar	26	(1)
Euro	6	(13)
Japanese yen	(3)	(4)
US dollar	(5)	34
Other	1	6
Total net open position	25	22

NOTES TO THE FINANCIAL STATEMENTS

Liquidity risk

Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Banking Group.

The Banking Group's liquidity and funding risks are governed by a detailed policy framework which is approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards. The core objective of the Banking Group's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses.

Central to the Banking Group's liquidity risk management approach is the establishment of a liquidity risk appetite framework to which the Banking Group must conform at all times. The risk appetite for liquidity has been set as low, and this objective is achieved by the Banking Group managing liquidity risks within the boundaries of the following requirements and principles:

- Maintaining the ability to meet all payment obligations in the immediate term.
- Ensuring the ability to meet "survival horizons" under Banking Group specific and general market liquidity stress scenarios.
- Maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the Banking Group's liquidity and funding risk profile.
- Limiting the potential earnings at risk associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Ensuring the liquidity management framework is compatible with regulatory requirements.
- Daily liquidity reporting and scenario analysis, quantifying the Banking Group's positions.
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high quality liquid assets to protect against adverse funding conditions and to support day-to-day operations.
- Establishing detailed contingency plans to cover different liquidity crisis events.

Management of liquidity and funding risks are overseen by ALCO.

Supervision and Regulation

The RBNZ requires the Bank to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency liquidity. This also includes a formal contingency plan for dealing with a liquidity crisis. The Banking Group is required to meet one week and one month liquidity mismatch ratios and a one year core funding ratio each day.

Scenario Modelling

A key component of the Banking Group's liquidity management framework is scenario modelling. Liquidity is assessed under different scenarios, including normal conditions, name crisis and funding market disruption.

Normal conditions: reflects the normal behaviour of cash flows in the ordinary course of business. The Banking Group must manage its short and long term wholesale funding to ensure there are no undue maturity concentrations within the wholesale funding profile over the following three months. Limits are applied within the three month period based on a combination of the Banking Group's demonstrated and assumed wholesale funding capacity.

Name-crisis: refers to a potential severe name-specific liquidity crisis scenario which models the behaviour of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under this scenario the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must have sufficient high quality liquid assets to meet its liquidity needs for the following 30 calendar days under this scenario.

Funding market disruption: The global financial crisis highlighted the importance of differentiating between a name specific crisis and the different behaviour that domestic and offshore funding markets can exhibit during market disruption events. Under the liquidity policy, the Banking Group must be able to meet its wholesale maturities under a scenario of protracted stress in domestic and offshore wholesale funding markets over a period of six months.

As of 30 September 2016 the Banking Group was in compliance with the above scenarios.

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through the Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

The Banking Group also uses maturity concentration limits under the wholesale funding and liquidity management framework. Maturity concentration limits ensure that the Banking Group does not become reliant on issuing large volumes of new wholesale funding within a short time period. Funding instruments used to meet the wholesale borrowing requirement must be on a pre-established list of approved products.

NOTES TO THE FINANCIAL STATEMENTS

Funding capacity and debt issuance planning

The Banking Group adopts a conservative approach to determine its funding capacity. Annually, a funding plan is approved by the Bank's Board. The plan is supplemented by regular updates and is linked to the Banking Group's three year strategic planning cycle.

Funding Composition

The Banking Group actively uses balance sheet disciplines to prudently manage the funding mix. The Banking Group employs funding metrics to ensure that an appropriate proportion of its assets are funded from stable sources, including customer liabilities, longer-dated wholesale debt (with remaining term exceeding one year) and equity. This approach recognises that long-term wholesale debt and other sticky liabilities have favourable liquidity characteristics.

Analysis of funding liabilities by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes.

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Customer deposits¹		
New Zealand	81,342	75,408
Overseas	10,018	9,462
Total customer deposits	91,360	84,870
Wholesale funding		
Debt issuances	20,014	19,403
Subordinated debt	3,282	2,343
Certificates of deposit	2,237	745
Commercial paper	5,364	4,964
Other borrowings	105	99
Total wholesale funding	31,002	27,554
Total funding	122,362	112,424
Concentrations of funding by industry		
Agriculture	2,989	2,871
Forestry, fishing and mining	618	656
Business and property services	6,751	6,304
Construction	1,588	1,283
Entertainment, leisure and tourism	1,010	1,021
Finance and insurance	40,383	35,331
Government and local authority	2,958	2,910
Manufacturing	2,004	1,913
Households	59,275	55,239
Retail trade	1,075	1,064
Transport and storage	653	745
Wholesale trade	1,274	1,312
Other ²	1,784	1,775
Total funding	122,362	112,424
Concentrations of funding by geography		
New Zealand	90,422	81,635
Australia	1,017	1,016
United States	12,215	12,332
Europe	11,448	10,388
Other countries	7,260	7,053
Total funding	122,362	112,424

¹ Represents term deposits, other deposits bearing interest, deposits not bearing interest and UDC secured investments.

² Other includes exposures to electricity, gas and water, communications and personal services.

NOTES TO THE FINANCIAL STATEMENTS

Liquidity portfolio management

The Banking Group holds a diversified portfolio of cash and high quality highly liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its internal and regulatory liquidity scenario metrics.

Total liquidity portfolio

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Cash and balances with central banks	2,068	2,069
Certificates of deposit	1,124	468
Government, local body stock and bonds	6,117	5,063
Government treasury bills	811	1,155
Reserve Bank bills	100	799
Other bonds	6,483	5,930
Total liquidity portfolio	16,703	15,484

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 30 September 2016 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ\$13,515 million. The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ\$6,793 million at 30 September 2016.

Liquidity crisis contingency planning

The Banking Group maintains liquidity crisis contingency plans defining an approach for analysing and responding to a liquidity-threatening event on a group wide basis. The framework includes:

- the establishment of crisis severity/stress levels
- clearly assigned crisis roles and responsibilities
- early warning signals indicative of an approaching crisis, and mechanisms to monitor and report these signals
- outlined action plans, and courses of action for altering asset and liability behaviour
- procedures for crisis management reporting, and covering cash-flow shortfalls
- guidelines determining the priority of customer relationships in the event of liquidity problems
- assigned responsibilities for internal and external communications.

NOTES TO THE FINANCIAL STATEMENTS

Contractual maturity analysis of financial assets and liabilities

The following tables present the Banking Group's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Bank or the Banking Group may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows, except for derivatives held for trading where the full mark-to-market amount has been included in the less than three months category. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the Banking Group or the Bank can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount, and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

The Banking Group does not manage its liquidity risk on this basis.

30/09/2016	Total NZ\$m	At call NZ\$m	Up to 3 months NZ\$m	Over 3 to 12 months NZ\$m	Over 1 to 5 years NZ\$m	Over 5 years NZ\$m	No maturity specified NZ\$m
Financial assets							
Cash	2,274	2,045	229	-	-	-	-
Settlement balances receivable	396	58	338	-	-	-	-
Collateral paid	2,310	-	2,310	-	-	-	-
Trading securities	12,804	-	171	1,136	10,859	638	-
Derivative financial assets (trading)	19,513	-	19,513	-	-	-	-
Available-for-sale assets	2,923	-	1,670	283	969	-	1
Net loans and advances	147,972	246	15,350	17,562	50,168	64,646	-
Other financial assets	281	-	228	41	12	-	-
Total financial assets	188,473	2,349	39,809	19,022	62,008	65,284	1
Financial liabilities							
Settlement balances payable	1,740	1,111	629	-	-	-	-
Collateral received	529	-	529	-	-	-	-
Deposits and other borrowings	100,429	50,413	20,790	25,095	4,131	-	-
Derivative financial liabilities (trading)	19,374	-	19,374	-	-	-	-
Debt issuances ¹	20,983	-	2,363	1,882	13,466	3,272	-
Subordinated debt ¹	3,354	-	11	33	1,369	1,941	-
Other financial liabilities	264	-	33	7	93	131	-
Total financial liabilities	146,673	51,524	43,729	27,017	19,059	5,344	-
Derivative financial instruments used for balance sheet management							
- gross inflows	16,047	-	3,006	1,811	7,642	3,588	-
- gross outflows	(16,844)	-	(3,492)	(1,823)	(7,874)	(3,655)	-
Net financial assets / (liabilities) after balance sheet management	41,003	(49,175)	(4,406)	(8,007)	42,717	59,873	1

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Total NZ\$m	Less than 1 year NZ\$m	Beyond 1 year NZ\$m
Non-credit related commitments	460	92	368
Credit related commitments	27,296	27,296	-
Contingent liabilities	2,461	2,461	-
Total	30,217	29,849	368

¹ Any callable wholesale debt instruments have been included at their next call date. Refer to note 17 for subordinated debt call dates.

NOTES TO THE FINANCIAL STATEMENTS

30/09/2015	Total NZ\$m	At call NZ\$m	Up to 3 months NZ\$m	Over 3 to 12 months NZ\$m	Over 1 to 5 years NZ\$m	Over 5 years NZ\$m	No maturity specified NZ\$m
Financial assets							
Cash	2,380	2,041	339	-	-	-	-
Settlement balances receivable	309	140	169	-	-	-	-
Collateral paid	1,929	-	1,929	-	-	-	-
Trading securities	13,180	-	516	1,929	9,710	1,025	-
Derivative financial assets (trading)	16,432	-	16,432	-	-	-	-
Available-for-sale assets	1,454	-	1,078	11	363	-	2
Net loans and advances	141,418	252	15,399	16,397	49,731	59,639	-
Other financial assets	331	-	180	146	5	-	-
Total financial assets	177,433	2,433	36,042	18,483	59,809	60,664	2
Financial liabilities							
Settlement balances payable	1,803	1,188	615	-	-	-	-
Collateral received	1,687	-	1,687	-	-	-	-
Deposits and other borrowings	92,249	48,429	18,784	20,926	4,110	-	-
Derivative financial liabilities (trading)	14,700	-	14,700	-	-	-	-
Debt issuances ¹	20,315	-	2,217	3,207	13,498	1,393	-
Subordinated debt ¹	2,461	-	11	33	1,414	1,003	-
Other financial liabilities	547	-	176	9	107	255	-
Total financial liabilities	133,762	49,617	38,190	24,175	19,129	2,651	-
Derivative financial instruments used for balance sheet management							
- gross inflows	16,190	-	1,884	2,881	9,480	1,945	-
- gross outflows	(17,123)	-	(1,909)	(3,049)	(10,166)	(1,999)	-
Net financial assets / (liabilities) after balance sheet management	42,738	(47,184)	(2,173)	(5,860)	39,994	57,959	2

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Total NZ\$m	Less than 1 year NZ\$m	Beyond 1 year NZ\$m
Non-credit related commitments	514	59	455
Credit related commitments	26,903	26,903	-
Contingent liabilities	2,454	2,454	-
Total	29,871	29,416	455

¹ Any callable wholesale debt instruments have been included at their next call date. Prior period interest cash flows have been revised to improve comparability.

NOTES TO THE FINANCIAL STATEMENTS

19. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

	At amortised cost	At fair value through profit or loss		Hedging	Available-for- sale assets	Total carrying amount	Fair value
		Designated on initial recognition	Held for trading				
30/09/2016	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Cash	2,274	-	-	-	-	2,274	2,274
Settlement balances receivable	396	-	-	-	-	396	396
Collateral paid	2,310	-	-	-	-	2,310	2,310
Trading securities	-	-	11,979	-	-	11,979	11,979
Derivative financial instruments ¹	-	-	20,379	731	-	21,110	21,110
Available-for-sale assets	-	-	-	-	2,859	2,859	2,859
Net loans and advances ²	114,623	-	-	-	-	114,623	114,891
Other financial assets	559	119	-	-	-	678	678
Total financial assets	120,162	119	32,358	731	2,859	156,229	156,497
Settlement balances payable	1,771	-	-	-	-	1,771	1,771
Collateral received	529	-	-	-	-	529	529
Deposits and other borrowings	93,702	5,364	-	-	-	99,066	99,169
Derivative financial instruments ¹	-	-	21,190	766	-	21,956	21,956
Debt issuances ²	20,014	-	-	-	-	20,014	20,148
Subordinated debt	3,282	-	-	-	-	3,282	3,351
Other financial liabilities	482	-	157	-	-	639	639
Total financial liabilities	119,780	5,364	21,347	766	-	147,257	147,563
30/09/2015							
Cash	2,380	-	-	-	-	2,380	2,380
Settlement balances receivable	309	-	-	-	-	309	309
Collateral paid	1,929	-	-	-	-	1,929	1,929
Trading securities	-	-	12,139	-	-	12,139	12,139
Derivative financial instruments ¹	-	-	17,062	596	-	17,658	17,658
Available-for-sale assets	-	-	-	-	1,428	1,428	1,428
Net loans and advances ²	106,357	-	-	-	-	106,357	106,854
Other financial assets	606	151	-	-	-	757	757
Total financial assets	111,581	151	29,201	596	1,428	142,957	143,454
Settlement balances payable	1,844	-	-	-	-	1,844	1,844
Collateral received	1,687	-	-	-	-	1,687	1,687
Deposits and other borrowings	85,714	4,964	-	-	-	90,678	90,832
Derivative financial instruments ¹	-	-	16,488	742	-	17,230	17,230
Debt issuances ²	19,403	-	-	-	-	19,403	19,516
Subordinated debt	2,343	-	-	-	-	2,343	2,288
Other financial liabilities	653	-	309	-	-	962	962
Total financial liabilities	111,644	4,964	16,797	742	-	134,147	134,359

¹ Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.

² Fair value hedging is applied to certain financial assets within loans and advances and certain financial liabilities within debt issuances. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

Measurement of fair value

Valuation methodologies

The Banking Group has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

In instances where the Banking Group holds offsetting risk positions, the Banking Group uses the portfolio exemption in NZ IFRS 13 *Fair Value Measurement* to measure the fair value of such groups of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure.

The Banking Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

Valuation techniques and inputs used

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price (level1) for the instrument:

- For instruments classified as trading securities and securities short sold, derivative financial assets and liabilities, available-for-sale assets, and investments backing insurance contract liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices / yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For net loans and advances, deposits and other borrowings and debt issuances, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year.

NOTES TO THE FINANCIAL STATEMENTS

Valuation hierarchy for financial assets and financial liabilities measured at fair value in the balance sheet

	30/09/2016				30/09/2015			
	Level 1 NZ\$m	Level 2 NZ\$m	Level 3 NZ\$m	Total NZ\$m	Level 1 NZ\$m	Level 2 NZ\$m	Level 3 NZ\$m	Total NZ\$m
Financial assets								
Trading securities	11,967	12	-	11,979	11,880	259	-	12,139
Derivative financial instruments	3	21,100	7	21,110	12	17,640	6	17,658
Available-for-sale assets	1,671	1,187	1	2,859	900	526	2	1,428
Investments backing insurance contract liabilities	5	114	-	119	2	149	-	151
Total	13,646	22,413	8	36,067	12,794	18,574	8	31,376
Financial liabilities								
Deposits and other borrowings	-	5,364	-	5,364	-	4,964	-	4,964
Derivative financial instruments	46	21,908	2	21,956	19	17,209	2	17,230
Other financial liabilities	157	-	-	157	309	-	-	309
Total	203	27,272	2	27,477	328	22,173	2	22,503

Valuation hierarchy for financial assets and financial liabilities not measured at fair value¹

	30/09/2016				30/09/2015			
	Level 1 NZ\$m	Level 2 NZ\$m	Level 3 NZ\$m	Total NZ\$m	Level 1 NZ\$m	Level 2 NZ\$m	Level 3 NZ\$m	Total NZ\$m
Financial assets								
Net loans and advances	-	111,513	3,378	114,891	-	102,945	3,909	106,854
Financial liabilities								
Deposits and other borrowings	-	93,805	-	93,805	-	85,868	-	85,868
Debt issuances	1,629	18,519	-	20,148	638	18,878	-	19,516
Subordinated debt	1,361	1,990	-	3,351	1,363	925	-	2,288
Total	2,990	114,314	-	117,304	2,001	105,671	-	107,672

¹ Fair values, where the carrying amount is not considered a close approximation of fair value.

20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

	30/09/2016			30/09/2015		
	within one year NZ\$m	after more than one year NZ\$m	Total NZ\$m	within one year NZ\$m	after more than one year NZ\$m	Total NZ\$m
Assets						
Investments backing insurance contract liabilities	107	12	119	146	5	151
Available-for-sale assets	1,915	944	2,859	1,071	357	1,428
Net loans and advances	24,976	89,647	114,623	26,967	79,390	106,357
Other assets	598	103	701	657	83	740
Liabilities						
Deposits and other borrowings	95,301	3,765	99,066	87,000	3,678	90,678
Payables and other liabilities	877	242	1,119	1,272	215	1,487
Provisions	108	98	206	95	96	191
Debt issuances	4,009	16,005	20,014	5,237	14,166	19,403

NOTES TO THE FINANCIAL STATEMENTS

21. ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

Assets charged as security for liabilities¹

The carrying amounts of assets pledged as security are as follows:

	Carrying Amount		Related Liability	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Securities sold under agreements to repurchase	77	47	76	47
Residential mortgages pledged as security for covered bonds	10,265	7,547	6,218	5,335
Assets pledged as collateral for UDC secured investments	2,665	2,441	1,592	1,736

UDC Secured Investments are secured by a security interest granted under the Trust Deed over all of UDC Finance Limited's (UDC) present and future assets and undertakings, to Trustees Executors Limited, as supervisor. The assets subject to the security interest comprise mainly loans to UDC's customers and certain plant and equipment. The security interest secures all amounts payable by UDC on the UDC Secured Investments and all other moneys payable by UDC under the Trust Deed.

Collateral accepted as security for assets¹

The Banking Group has received collateral in relation to reverse repurchase agreements. These transactions are governed by standard industry agreements.

The fair value of collateral received and sold or repledged is as follows:

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Collateral received on standard reverse repurchase agreements		
Fair value of assets which can be sold	231	339
Fair value of assets sold or repledged	141	269

¹ Excludes the amounts disclosed as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of the collateral agreements are included in the standard CSA that forms part of the ISDA.

NOTES TO THE FINANCIAL STATEMENTS

22. OFFSETTING

The following information relates to financial assets and liabilities which have not been set off in the balance sheet but for which the Banking Group has enforceable master netting agreements in place with counterparties. No financial assets and liabilities have been set off in the balance sheet.

	Gross amounts presented in the balance sheet NZ\$m	Related amounts not offset ¹		Net amounts NZ\$m
		Financial instruments NZ\$m	Cash collateral NZ\$m	
30/09/2016				
Financial assets				
Collateral paid	1,405	-	(1,332)	73
Trading securities ²	77	(76)	-	1
Derivative financial instruments	7,618	(7,280)	(323)	15
Financial liabilities				
Collateral received	358	-	(323)	35
Securities sold under agreements to repurchase ³	76	(76)	-	-
Derivative financial instruments	8,768	(7,280)	(1,332)	156
30/09/2015				
Financial assets				
Collateral paid	1,139	-	(1,112)	27
Trading securities ²	47	(47)	-	-
Derivative financial instruments	7,007	(6,201)	(781)	25
Financial liabilities				
Collateral received	960	-	(781)	179
Securities sold under agreements to repurchase ³	47	(47)	-	-
Derivative financial instruments	7,349	(6,201)	(1,112)	36

¹ The Banking Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Banking Group holds and provides cash and securities collateral in respect of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under NZ IAS 32 *Financial Instruments: Presentation*.

² This is the amount of trading securities encumbered through repurchase agreements, see financial assets pledged as collateral table in note 21.

³ Included in deposits and other borrowings, see note 15.

NOTES TO THE FINANCIAL STATEMENTS

23. CREDIT RELATED COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Contract amount of:		
Credit related commitments - facilities provided		
Undrawn facilities ¹	27,296	26,903
Guarantees and contingent liabilities		
Guarantees and letters of credit	850	1,002
Performance related contingencies	1,611	1,452
Total guarantees and contingent liabilities	2,461	2,454
Total Credit Related Commitments, Guarantees and Contingent Liabilities	29,757	29,357

¹ The comparative amount for undrawn facilities has been reduced by NZ\$5,518 million following a review of the composition of commitments.

These guarantees and contingent liabilities relate to transactions that the Banking Group has entered into as principal, including guarantees, standby letters of credit and documentary letters of credit.

Documentary letters of credit involve the issue of letters of credit guaranteeing payment in favour of an exporter secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

Performance related contingencies are liabilities that oblige the Banking Group to make payments to a third party should the customer fail to fulfil the non-monetary terms of the contract.

To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

Other contingent liabilities

In June 2013, litigation funder Litigation Lending Services (NZ) Limited filed a representative action against the Bank regarding certain fees charged to New Zealand customers. The representative action has been settled with the Bank making a contribution to the claimants' costs. The Bank has not admitted liability and all claims against it have been formally discontinued.

The Banking Group has other contingent liabilities in respect of actual and possible claims and court proceedings.

An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where deemed necessary.

NOTES TO THE FINANCIAL STATEMENTS

24. OTHER ASSETS

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Accrued interest and prepaid discounts	397	426
Accrued commission	22	22
Share-based payments asset	103	83
Prepaid expenses	19	24
Other assets	160	185
Total other assets	701	740

25. GOODWILL AND OTHER INTANGIBLE ASSETS

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Goodwill	3,233	3,233
Software	76	139
Other intangibles	115	120
Total goodwill and other intangible assets	3,424	3,492

26. PAYABLES AND OTHER LIABILITIES

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Creditors	60	121
Accrued interest and unearned discounts	436	479
Defined benefits plan obligations	28	43
Accrued charges	169	240
Securities short sold (classified as held for trading)	157	309
Liability for acceptances	27	52
Share-based payments liability	86	65
Life insurance contract liabilities - reinsurance	128	107
Other liabilities	28	71
Total payables and other liabilities	1,119	1,487

27. PROVISIONS

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Employee annual and long service leave	126	129
Other ¹	80	62
Total provisions	206	191

¹ Includes provisions for surplus leased space, make-good of leased premises, seismic obligations, and restructuring costs.

NOTES TO THE FINANCIAL STATEMENTS

28. SHARE CAPITAL

	Number of issued shares		NZ\$ millions	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Ordinary shares				
At beginning of the year	3,345,755,498	2,670,755,498	8,588	7,913
Issued during the year	-	675,000,000	-	675
Ordinary shares at end of the year	3,345,755,498	3,345,755,498	8,588	8,588
Preference shares				
At beginning of the year	300,000,000	300,000,000	300	300
Preference shares at end of the year	300,000,000	300,000,000	300	300
Total share capital	3,645,755,498	3,645,755,498	8,888	8,888

Ordinary shares

650,712 of the ordinary shares are uncalled (2015: 650,712 shares uncalled).

During the year ended 30 September 2016 the Bank paid ordinary dividends of NZ\$1,350 million (2015: NZ\$1,745 million) to the Immediate Parent Company (equivalent to NZ\$0.40 per share) (2015: equivalent to NZ\$0.65 per share).

All ordinary shares share equally in dividends and any proceeds available to ordinary shareholders on winding up of the Bank. On a show of hands every member who is present at a meeting in person or by proxy or by representative is entitled to one vote, and upon a poll every member shall have one vote for each share held.

Preference shares

All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. The key terms of the preference shares are as follows:

Dividends

Dividends are payable at the discretion of the directors of the Bank and are non-cumulative. The Bank must not resolve to pay any dividend or make any other distribution on its ordinary shares until the next preference dividend payment date if the dividend on the preference shares is not paid.

Should the Bank elect to pay a dividend, the dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 325 basis point margin, multiplied by one minus the New Zealand company tax rate, with dividend payments due on 1 March and 1 September each year, beginning on 1 March 2014.

Redemption features

The preference shares are redeemable, subject to prior written approval of the RBNZ, by the Bank providing notice in writing to holders of the preference shares:

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares or
- on any dividend payment date on or after 1 March 2019 or
- on any date after 1 March 2019 if the Bank has ceased to be a wholly owned subsidiary of the Ultimate Parent Bank.

The preference shares may be redeemed for nil consideration should a non-viability trigger event occur.

Rights of holders in event of liquidation

In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.

The preference shares qualify as "additional tier 1 capital" for capital adequacy purposes.

NOTES TO THE FINANCIAL STATEMENTS

29. CAPITAL ADEQUACY

Capital management policies

The Banking Group's core capital objectives are to:

- Protect the interests of depositors, creditors and shareholders
- Ensure the safety and soundness of the Banking Group's capital position
- Ensure that the capital base supports the Banking Group's risk appetite, and strategic business objectives, in an efficient and effective manner.

The Board holds ultimate responsibility for ensuring that capital adequacy is maintained. This includes: setting, monitoring and obtaining assurance for the Banking Group's Internal Capital Adequacy Assessment Process ("ICAAP") policy and framework; standardised risk definitions for all material risks; materiality thresholds; capital adequacy targets; internal economic risk capital principles; and risk appetite.

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:

- Meet minimum prudential requirements imposed by regulators
- Ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan
- Support the economic risk capital requirements of the business.

The Banking Group's Asset & Liability Committee and its related Capital Management Forum are responsible for developing, implementing and maintaining the Banking Group's ICAAP framework, including ongoing monitoring, reporting and compliance. The Banking Group's ICAAP is subject to independent and periodic review conducted by Internal Audit.

The Banking Group has complied with all externally imposed capital requirements to which it is subject during the current and comparative periods.

Basel III capital ratios	RBNZ minimum ratios	Banking Group		Bank	
		30/09/2016	30/09/2015	30/09/2016	30/09/2015
Unaudited					
Common equity tier 1 capital	4.5%	10.0%	10.5%	8.9%	9.4%
Tier 1 capital	6.0%	13.2%	12.7%	12.2%	11.8%
Total capital	8.0%	13.7%	13.6%	12.8%	12.7%
Buffer ratio	2.5%	5.5%	5.6%		

NOTES TO THE FINANCIAL STATEMENTS

Capital of the Banking Group

	Note	Unaudited 30/09/2016 NZ\$m
Tier 1 capital		
<i>Common equity tier 1 capital</i>		
Paid up ordinary shares issued by the Bank	28	8,588
Retained earnings (net of appropriations)		3,760
Accumulated other comprehensive income and other disclosed reserves		62
<i>Less deductions from common equity tier 1 capital</i>		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,412)
Cash flow hedge reserve		(62)
Expected losses to the extent greater than total eligible allowances for impairment		(211)
Common equity tier 1 capital		8,725
<i>Additional tier 1 capital</i>		
Preference shares	28	300
ANZ Capital Notes	17	2,441
Capital attributable to The Bonus Bonds Trust investors		39
Additional tier 1 capital		2,780
Total tier 1 capital		11,505
Tier 2 capital		
<i>Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements</i>		
NZD 835,000,000 perpetual subordinated bond	17	835
<i>Less deductions from tier 2 capital</i>		
Basel III transition adjustment ¹		(367)
Total tier 2 capital		468
Total capital		11,973

Capital requirements of the Banking Group

	Exposure at default NZ\$m	Risk weighted exposure or implied risk weighted exposure ² NZ\$m	Total capital requirement NZ\$m
Unaudited 30/09/2016			
Exposures subject to internal ratings based approach	157,545	60,363	4,829
Specialised lending exposures subject to slotting approach	11,017	10,049	804
Exposures subject to standardised approach	2,100	376	30
Equity exposures	7	31	2
Other exposures	3,636	1,687	135
Total credit risk	174,305	72,506	5,800
Operational risk	n/a	6,052	484
Market risk	n/a	8,561	685
Total	174,305	87,119	6,969

¹ Certain instruments issued by the Bank qualify as tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements. Fixing the base at the nominal amount of such instruments outstanding at 31 December 2012, their recognition is capped at 40% from 1 January 2016; 20% from 1 January 2017; and from 1 January 2018 onwards these instruments will not be included in regulatory capital.

² Total credit risk weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

NOTES TO THE FINANCIAL STATEMENTS

Implementation of the advanced internal ratings based approach to credit risk measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for Internal Ratings Based (IRB) banks in the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.

Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

Loss Given Default (LGD): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document *Capital Adequacy Framework (Standardised Approach)* (BS2A).

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

IRB Asset Class	Borrower Type	Rating Approach
Sovereign	Crown	IRB - Advanced
	RBNZ	IRB - Advanced
	Any other sovereign and its central bank	IRB - Advanced
Bank	Registered banks	IRB - Advanced
Corporate	Corporation, partnerships or proprietorships that do not fit any other asset classification	IRB - Advanced
	Corporate Small to Medium Enterprises ("SME") with turnover of less than NZ\$50 million	IRB - Advanced
Retail Mortgages	Individuals' borrowings against residential property	IRB - Advanced
Other Retail	Other lending to individuals (including credit cards)	IRB - Advanced
	SME business borrowers	IRB - Advanced
Corporate sub-class - Specialised lending	Project finance	IRB - Slotting
	Income producing real estate	IRB - Slotting
Equity		IRB
Other assets	All other assets not falling within any of the above classes	IRB

Standardised approach

Exposure class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by Basel III	Standardised

NOTES TO THE FINANCIAL STATEMENTS

Controls surrounding credit risk rating systems

The term "Rating Systems" covers all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

All material aspects of the Rating Systems and risk estimate processes are governed by the Banking Group's Risk Committee. Risk grades are an integral part of reporting to senior management and executives. Management and staff of credit risk functions, in conjunction with the relevant Retail and Wholesale Risk Committees, regularly assess the performance of the rating systems, identify any areas for improvement and monitor progress on previously identified development work needed.

The Banking Group's Rating Systems are governed by a comprehensive framework of controls that operate at the business unit and support centres, and through central audit and validation processes. All policies, model designs, model reviews, methodologies, validations, responsibilities, systems and processes supporting the ratings systems are fully documented.

The Banking Group's Retail and Wholesale ratings functions work closely with the Ultimate Parent Bank's risk ratings functions, are independent of operational lending activities and are responsible for the ratings strategies and ongoing management of credit risk models within New Zealand. The annual review of models used across the Banking Group is a function undertaken by the ANZ Decision Model Validation Unit, which is also independent of credit risk operational functions and is responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The target approach to modelling for the Banking Group is to deploy the model most suitable for the environment. At present this involves an approach to modelling that combines models developed in New Zealand and models developed by the Ultimate Parent Bank, tested and validated for use in New Zealand, as appropriate.

Capital requirements by asset class under the IRB approach

	Total exposure or principal amount NZ\$m	Exposure at default NZ\$m	Exposure- weighted LGD used for the capital calculation %	Exposure- weighted risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
Unaudited 30/09/2016						
On-balance sheet exposures						
Corporate	35,808	35,820	36	59	22,396	1,791
Sovereign	11,237	11,027	5	1	112	9
Bank	8,094	6,570	58	18	1,268	103
Retail mortgages	64,660	64,884	20	22	15,374	1,230
Other retail	5,049	5,149	76	96	5,260	420
Total on-balance sheet exposures	124,848	123,450	27	34	44,410	3,553
Off-balance sheet exposures						
Corporate	12,387	10,369	50	50	5,472	438
Sovereign	275	160	5	1	1	-
Bank	1,379	1,123	51	18	216	17
Retail mortgages	8,272	8,662	17	15	1,415	113
Other retail	5,563	5,611	79	56	3,319	266
Total off-balance sheet exposures	27,876	25,925	45	38	10,423	834
Market related contracts						
Corporate	105,432	3,254	60	88	3,019	242
Sovereign	12,430	463	5	41	201	16
Bank	841,969	4,453	59	49	2,310	184
Total market related contracts	959,831	8,170	56	64	5,530	442
Total credit risk exposures subject to the IRB approach	1,112,555	157,545	32	36	60,363	4,829

NOTES TO THE FINANCIAL STATEMENTS

IRB exposures by customer credit rating

Unaudited 30/09/2016	Probability of default %	Exposure at default NZ\$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
Corporate						
0 - 2	0.06	6,300	63	46	3,090	247
3 - 4	0.32	22,104	37	42	9,811	785
5	1.03	13,050	36	64	8,880	710
6	2.26	5,688	37	84	5,071	406
7 - 8	8.49	1,846	43	158	3,100	248
Default	100.00	455	43	194	935	75
Total corporate exposures	1.92	49,443	40	59	30,887	2,471
Sovereign						
0	0.01	11,501	5	3	311	25
1 - 8	0.03	149	5	2	3	-
Total sovereign exposures	0.01	11,650	5	3	314	25
Bank						
0	0.03	57	65	24	14	1
1	0.03	10,859	58	27	3,135	251
2 - 4	0.09	1,223	59	49	636	51
5 - 8	1.70	7	65	126	9	1
Total bank exposures	0.04	12,146	58	29	3,794	304
Retail mortgages						
0 - 3	0.20	18,244	12	5	963	77
4	0.46	27,370	19	15	4,230	338
5	0.92	21,964	24	32	7,429	594
6	2.00	5,358	28	63	3,580	286
7 - 8	5.13	444	29	104	491	39
Default	100.00	166	23	54	96	9
Total retail mortgages exposures	0.90	73,546	19	22	16,789	1,343
Other retail						
0 - 2	0.10	654	78	48	331	26
3 - 4	0.26	4,794	78	54	2,768	221
5	0.99	1,763	73	73	1,369	110
6	2.11	1,686	75	91	1,626	130
7 - 8	7.86	1,794	83	128	2,428	194
Default	100.00	69	78	77	57	5
Total other retail exposures	2.57	10,760	78	75	8,579	686
Total credit risk exposures subject to the IRB approach	1.20	157,545	32	36	60,363	4,829

Credit risk exposures subject to the IRB approach have been derived in accordance with BS2B and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

NOTES TO THE FINANCIAL STATEMENTS

Specialised lending subject to the slotting approach

Unaudited 30/09/2016	Exposure at default	Risk weight	Risk weighted exposure	Total capital requirement
	NZ\$m	%	NZ\$m	NZ\$m
On-balance sheet exposures				
Strong	3,351	70	2,487	199
Good	5,725	90	5,462	437
Satisfactory	447	115	545	44
Weak	88	250	234	19
Default	46	-	-	-
Total on-balance sheet exposures	9,657	85	8,728	699

Off-balance sheet exposures	Exposure amount	Exposure at default	Average risk weight	Risk weighted exposure	Total capital requirement
	NZ\$m	NZ\$m	%	NZ\$m	NZ\$m
Undrawn commitments and other off balance sheet exposures	1,392	1,211	85	1,091	87
Market related contracts	1,948	149	146	230	18
Total off-balance sheet exposures	3,340	1,360	92	1,321	105

Specialised lending exposures subject to the slotting approach have been calculated in accordance with BS2B.

The supervisory categories of specialised lending above are associated with specific risk-weights. These categories broadly correspond to the following external credit assessments using Standard & Poor's rating scale, Strong: BBB- or better, Good: BB+ or BB, Satisfactory: BB- or B+ and Weak: B to C-.

Credit risk exposures subject to the standardised approach

Unaudited 30/09/2016	Exposure at default	Risk weight	Risk weighted exposure	Total capital requirement
	NZ\$m	%	NZ\$m	NZ\$m
On-balance sheet exposures				
Corporates	49	100	51	4
Default	1	150	1	-
Total on-balance sheet exposures	50	101	52	4

Off-balance sheet exposures	Exposure amount	Average credit conversion factor	Exposure at default	Average risk weight	Risk weighted exposure	Total capital requirement
	NZ\$m	%	NZ\$m	%	NZ\$m	NZ\$m
Undrawn commitments and other off balance sheet exposures	489	51	250	94	248	20
Market related contracts	606,149	-	1,800	4	76	6
Total off balance sheet	606,638	n/a	2,050	15	324	26

Credit exposures subject to the Standardised Approach have been calculated in accordance with BS2A.

NOTES TO THE FINANCIAL STATEMENTS

Equity exposures

Unaudited 30/09/2016	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
All equity holdings not deducted from capital	7	400	31	2

Equity exposures have been calculated in accordance with BS2B.

Other exposures

Unaudited 30/09/2016	Exposure at default NZ\$m	Risk weight %	Risk weighted exposure NZ\$m	Total capital requirement NZ\$m
Cash	193	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,852	-	-	-
Other assets	1,591	100	1,687	135
Total other IRB credit risk exposures	3,636	44	1,687	135

Other exposures have been calculated in accordance with BS2B.

Credit risk mitigation

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. The Banking Group generally takes collateral security in the form of real property or a security interest in personal property, except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance, in the form of housing loans, is generally secured against real estate while short term revolving consumer credit is generally unsecured.

As at 30 September 2016, under the IRB approach, the Banking Group had NZ\$1,165 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2016 the Banking Group had an implied risk weighted exposure of NZ\$6,052 million for operational risk and an operational risk capital requirement of NZ\$484 million.

Operational risk capital is modelled at a New Zealand geographic level and then distributed and adjusted for the business environment and internal controls down to the business units using the Risk Scenario Methodology. This methodology ensures that there is sufficient operational risk capital held as a buffer for rare and severe unexpected operational loss events that may impact the New Zealand business. The Methodology applies a combination of expert judgement, business unit risk profiles, audit findings, and internal and external loss events to derive a series of business specific Risk Scenarios that are applied to the capital model. The Risk Scenario approach

- assesses the level of the Bank's exposure to specified risk scenarios;
- assesses the scope and quality of the Bank's internal control environment, key operational processes and risk mitigants; and
- directly links the risk scenarios to operational risk capital.

The Banking Group's operating risk capital is calculated using the Ultimate Parent Bank's methodology, but with standalone New Zealand inputs to ensure there are no diversification benefits.

The Banking Group does not incorporate any insurance mitigation impact into its capital number. Accordingly, there are no insurance related questions contained within the Risk Scenario Methodology.

NOTES TO THE FINANCIAL STATEMENTS

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the half-year ended 30 September 2016.

	Implied risk weighted exposure		Aggregate capital charge		Peak occurred on
	Period end NZ\$m	Peak NZ\$m	Period end NZ\$m	Peak NZ\$m	
Unaudited 30/09/2016					
Interest rate risk	8,525	9,388	682	751	15/09/2016
Foreign currency risk	35	130	3	10	17/05/2016
Equity risk	1	2	-	-	29/06/2016
	8,561		685		

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration.

Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk.

The Banking Group's internal capital allocation for these other material risks is NZ\$441 million (2015: NZ\$479 million).

The Banking Group regularly reviews the methodologies used to calculate the economic capital allocated to other material risks.

Capital adequacy of the Ultimate Parent Bank

Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
Unaudited				
Common equity tier 1 capital	9.6%	9.6%	9.7%	9.6%
Tier 1 capital	11.8%	11.3%	12.1%	11.6%
Total capital	14.3%	13.3%	14.7%	13.7%

For calculation of minimum capital requirements under Pillar 1 (Capital Requirements) of the Basel Accord, APRA has accredited the Overseas Banking Group to use the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

Under prudential regulations, the Overseas Banking Group is required to maintain a Prudential Capital Ratio (PCR) as determined by APRA. The Overseas Banking Group exceeded the PCR set by APRA as at 30 September 2016 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2016. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2016, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

NOTES TO THE FINANCIAL STATEMENTS

Residential mortgages by loan-to-valuation ratio

As required by the RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which have been accepted by the customer.

Unaudited	30/09/2016		Total NZ\$m
	On-balance sheet NZ\$m	Off-balance sheet NZ\$m	
LVR range			
Does not exceed 60%	26,830	4,760	31,590
Exceeds 60% and not 70%	14,193	1,499	15,692
Exceeds 70% and not 80%	17,857	1,604	19,461
Does not exceed 80%	58,880	7,863	66,743
Exceeds 80% and not 90%	3,968	198	4,166
Exceeds 90%	1,812	211	2,023
Total	64,660	8,272	72,932

Reconciliation of mortgage related amounts

Unaudited	30/09/2016	
	Note	NZ\$m
Term loans - housing	13	67,298
Less: fair value hedging adjustment		(138)
Less: housing loans made to corporate customers		(2,524)
Add: unsettled re-purchases of mortgages from the NZ Branch		24
On-balance sheet retail mortgage exposures subject to the IRB approach	18	64,660
Add: off-balance sheet retail mortgage exposures subject to the IRB approach		8,272
Total retail mortgage exposures subject to the IRB approach (as per LVR analysis)		72,932

NOTES TO THE FINANCIAL STATEMENTS

30. SUBSIDIARIES

The following table lists the principal subsidiaries of the Bank. Principal subsidiaries are those that have transactions or balances with parties outside the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand unless stated otherwise.

Principal subsidiaries	Nature of business
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Securities Limited	On-line share broker
ANZNZ Covered Bond Trust ¹	Securitisation entity
Arawata Assets Limited	Property
Karapiro Investments Limited	Investment
Kingfisher NZ Trust 2008-1 ¹	Securitisation entity
OnePath Life (NZ) Limited	Insurance
UDC Finance Limited	Asset finance

¹ The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in note 31.

NOTES TO THE FINANCIAL STATEMENTS

31. STRUCTURED ENTITIES, TRANSFERRED FINANCIAL ASSETS, FIDUCIARY ACTIVITIES AND INSURANCE

Structured entities

The Banking Group's involvement with structured entities is mainly through securitisations and its funds management activities, which are outlined further below. The Banking Group has involvement with structured entities that may be established either by the Banking Group or by a third party.

Consolidated structured entities

Kingfisher NZ Trust 2008-1 (the Kingfisher Trust)

The Banking Group has established the Kingfisher Trust as an in-house residential mortgage backed securities facility that can issue securities meeting the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ.

These assets do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of the transferred assets.

As at 30 September 2016 and 30 September 2015 the Banking Group had not entered into any repurchase agreements with the RBNZ for residential mortgage backed securities and therefore no collateral had been accepted by the RBNZ under this facility.

ANZNZ Covered Bond Trust (the Covered Bond Trust)

Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

The Banking Group continues to recognise the assets of the Covered Bond Trust on its balance sheet as, although they are pledged as security for covered bonds, the Bank retains substantially all the risks and rewards of ownership.

Unconsolidated securitisations

The Banking Group also has an interest in unconsolidated securitisation entities through the provision of funding facilities or holding bonds or notes issued by such entities. The Banking Group's exposure to these entities is not material.

Transferred financial assets

Assets transferred to the Kingfisher Trust and the Covered Bond Trust

The Bank has purchased securities issued by both the Kingfisher Trust and the Covered Bond Trust in exchange for the transfer of the rights to the cash flows associated with the identified residential mortgages. As at 30 September 2016, NZ\$19,656 million of assets were held in the Kingfisher Trust and the Covered Bond Trust (2015: NZ\$16,071 million).

Repurchase transactions

Securities sold subject to repurchase agreements are not derecognised when substantially all the risks and rewards of ownership remain with the Bank. See note 21 for details of securities sold under agreements to repurchase. The amount of trading securities encumbered through repurchase agreements is shown in note 22. The carrying amount of the associated liabilities is not materially different to the amount of trading securities subject to the repurchase agreement.

NOTES TO THE FINANCIAL STATEMENTS

Funds management and other fiduciary activities

Funds management

Certain subsidiaries of the Bank act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. The Banking Group provides private banking services to a number of clients, including investment advice and portfolio management. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

As funds under management are not controlled by the Banking Group, they are not included in these financial statements. The Banking Group derives fee and commission income from the sale and management of investment funds and superannuation schemes, unit trusts and the provision of private banking services to customers. The Banking Group derives commission income from the sale of third party funds management products.

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2016, NZ\$3,698 million of funds under management were invested in the Banking Group's own products or securities (2015: NZ\$3,100 million).

Custodial services

The Banking Group provides custodial services to customers in respect of assets that are beneficially owned by those customers.

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Kiwisaver and other managed funds	11,219	9,147
The Bonus Bonds Trust	3,561	3,277
ANZ PIE Fund ¹	953	794
Discretionary Investment Management Service (DIMS) ²	7,007	6,020
Other investment portfolios ²	3,745	3,502
Total funds under management	26,485	22,740
Funds under custodial arrangements	7,408	6,535
Other funds held or managed subject to fiduciary responsibilities	1,927	1,547
Funds management fee income from structured entities	156	137

¹ The Banking Group established, and is considered to be the sponsor of, the ANZ PIE Fund. The ANZ PIE Fund invests only in deposits with the Bank. The Banking Group does not receive a management fee from, and does not have an interest in, the ANZ PIE Fund.

² These funds are not structured entities as they are investment portfolios managed on behalf of customers.

Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value. The Banking Group does not have any affiliated insurance entities or affiliated insurance groups that are not members of the Banking Group.

Except for standard lending facilities provided in the normal course of business on arm's length terms, the Banking Group has not provided any funding to entities where trust, custodial, funds management or other fiduciary activities are established, marketed and/or sponsored by a member of the Banking Group (2015: nil).

Insurance business

The Banking Group conducts insurance business through its subsidiary OnePath Life (NZ) Limited (OnePath Life).

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of OnePath Life of NZ\$926 million (2015: NZ\$884 million), which is 0.6% (2015: 0.6%) of the total consolidated assets of the Banking Group.

Risk management

The Bank and subsidiaries of the Bank participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank or the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY DISCLOSURES

Key management personnel

Key management personnel (KMP) are defined as directors and those executives who report directly to the Bank's Chief Executive Officer with responsibility for the strategic direction and management of a major revenue generating division or who control material revenue and expenses.

Loans made to directors and other KMP are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate.

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to the users of the financial statements in making and evaluating decisions about the allocation of scarce resources.

	Year to 30/09/2016 NZ\$000	Year to 30/09/2015 NZ\$000
Key management personnel compensation		
Salaries and short-term employee benefits	11,303	12,698
Post-employment benefits	280	220
Other long-term benefits	88	77
Termination benefits	79	-
Share-based payments expense	4,123	5,076
Total compensation of key management personnel	15,873	18,071
Loans to key management personnel	7,373	4,020

Transactions with other related parties

The Bank and Banking Group undertake transactions with the Immediate Parent Company, the Ultimate Parent Bank, other members of the Overseas Banking Group and associates.

These transactions principally consist of funding and hedging transactions, the provision of other financial and investment services, technology and process support, and compensation for share based payments made to Banking Group employees. Transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

In addition the Bank undertakes similar transactions with subsidiaries, which are eliminated in the consolidated Banking Group financial statements. Included within the Bank's transactions with subsidiaries is the provision of administrative functions to some subsidiaries for which no payments have been made.

Transactions with related parties

	Year to 30/09/2016 NZ\$m	Year to 30/09/2015 NZ\$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Interest income	49	17
Interest expense	87	62
Fee income	19	23
Gain on sale of mortgages to the NZ Branch	1	1
Other operating income	19	35
Operating expenses	64	64
Mortgages sold to the NZ Branch	697	1,891
Immediate Parent Company		
Interest expense	1	-
Ordinary shares issued	-	675
Associates		
Interest expense	-	3
Direct fee expense	10	8
Dividends received	2	89
Share of associates' profit	5	5

NOTES TO THE FINANCIAL STATEMENTS

Balances with related parties

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Cash	47	-
Settlement balances receivable	31	86
Collateral paid	375	-
Derivative financial instruments	4,361	4,006
Other assets	108	97
Immediate Parent Company		
Derivative financial instruments	-	2
Associates		
Investments in associates	7	4
Total due from related parties	4,929	4,195

Ultimate Parent Bank and subsidiaries not part of the Banking Group

Settlement balances payable	323	476
Collateral received	-	688
Deposits and other borrowings	-	1
Derivative financial instruments	4,818	3,240
Payables and other liabilities	32	17
Subordinated debt	1,951	1,014
Immediate Parent Company		
Deposits and other borrowings	29	51
Associates		
Payables and other liabilities	1	-
Total due to related parties	7,154	5,487

Balances due from / to related parties are unsecured other than that the Banking Group and the Bank have provided guarantees and commitments to related parties as follows:

	30/09/2016	30/09/2015
	NZ\$m	NZ\$m
Financial guarantees provided to the Ultimate Parent Bank	152	183
Undrawn credit commitments provided to the Immediate Parent Company	250	250

NOTES TO THE FINANCIAL STATEMENTS

33. CAPITAL EXPENDITURE AND OPERATING LEASE COMMITMENTS

	30/09/2016 NZ\$m	30/09/2015 NZ\$m
Contracts for outstanding capital expenditure		
Not later than 1 year	5	12
Future minimum lease payments under non-cancellable operating leases		
Not later than 1 year	87	47
Later than 1 year but not later than 5 years	217	258
Later than 5 years	151	197
Total operating lease commitments	455	502
Total commitments	460	514

34. COMPENSATION OF AUDITORS

	Year to 30/09/2016 NZ\$000	Year to 30/09/2015 NZ\$000
Compensation of auditors (KPMG New Zealand)		
Audit or review of financial statements ¹	2,219	2,165
Other services: ²		
Prudential and regulatory services ³	262	119
Offer documents assurance or review	100	155
Other assurance services ⁴	67	126
Total other services	429	400
Total compensation of auditors relating to the Banking Group	2,648	2,565
Fees paid on behalf of certain managed funds and not recharged ^{2,5}	33	35
Total compensation of auditors	2,681	2,600

¹ Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.

² Comparative amounts have been updated to conform with current period classification, and to exclude NZ\$68,000 of fees that were recharged to managed funds.

³ Includes fees for reviews and controls reports required by regulations.

⁴ Includes fees for controls reports, comfort letters and other agreed upon procedures engagements.

⁵ Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements and audits of summary financial statements for inclusion in offer documents, comfort letters and other agreed upon procedures engagements.

It is the Banking Group's policy that, subject to the approval of the Ultimate Parent Bank's Audit Committee, KPMG can provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. KPMG may not provide services that are perceived to be in conflict with the role of auditor. Services that are perceived to be in conflict with the role of auditor include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

NOTES TO THE FINANCIAL STATEMENTS

35. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

The Banking Group measures its concentration of credit risk using actual exposures for bank counterparties and limits for non bank counterparties. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures.

For the three months ended 30 September 2016 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of equity (as at the end of the period).

Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and partially on a gross basis. Netting has occurred (up to a limit of 125% of the Banking Group's tier 1 capital) in respect of certain transactions which are the subject of a bilateral netting agreement.

This information has been derived in accordance with the Bank's conditions of registration, the RBNZ document *Connected Exposures Policy* (BS8). The exposures are net of individual credit impairment allowances and exclude advances to connected persons of a capital nature.

	30/09/2016		30/09/2015	
	Amount NZ\$m	% of Tier 1 Capital	Amount NZ\$m	% of Tier 1 Capital
Aggregate at end of year¹				
Bank connected persons (on gross basis, before netting)	9,349	81.3%	7,907	76.9%
Less: amount netted off	7,619	66.2%	5,205	50.6%
Bank connected persons (on partial bilateral net basis)	1,730	15.1%	2,702	26.3%
Non-bank connected persons ²	1	0.0%	1	0.0%
Peak end-of-day for the year³				
Bank connected persons (on gross basis, before netting)	9,352	86.4%	8,491	89.6%
Less: amount netted off	5,353	49.5%	5,334	56.3%
Bank connected persons (on partial bilateral net basis)	3,999	36.9%	3,157	33.3%
Non-bank connected persons ²	4	0.0%	3	0.0%
Rating-contingent limit⁴				
Bank connected persons (on a gross basis, before netting)	n/a	125.0%	n/a	125.0%
Bank connected persons (on partial bilateral net basis)	n/a	70.0%	n/a	70.0%
Non-bank connected persons	n/a	15.0%	n/a	15.0%

¹ The Banking Group has amounts due from the Immediate Parent Company and the Ultimate Parent Bank and other entities within the Overseas Banking Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2016, the gross exposures to the Immediate Parent Company were NZ\$3 million (2015: NZ\$5 million). As at 30 September 2016, the gross exposures to the Ultimate Parent Bank were NZ\$9,346 million (2015: NZ\$7,902 million).

² Non-bank connected persons exposures comprise loans to directors of the Bank and their related parties.

³ The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the year. The peak end-of-day credit exposure ratios for the year to connected persons are measured over Tier 1 Capital as at the beginning of the month in which the peak aggregate amount of credit exposure occurred. Previously Tier 1 Capital as at the end of the year was used to calculate the peak ratios, and comparative ratios have been updated.

⁴ Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier 1 Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons. There have been no changes to these limits for the year ended 30 September 2016.

NOTES TO THE FINANCIAL STATEMENTS

36. RISK MANAGEMENT FRAMEWORK

The Banking Group recognises the importance of effective risk management to its business success. Management is committed to achieving strong control and a distinctive risk management capability that enables the Banking Group business units to meet their performance objectives.

The Banking Group approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk management division (Risk Management) is independent of the business, with clear delegations from the Board, and operates within a comprehensive framework comprising:

- The Board providing leadership, setting risk appetite/strategy and monitoring progress
- A strong framework for development and maintenance of Banking Group-wide risk management policies, procedures and systems, overseen by an independent team of risk professionals
- The use of sophisticated risk tools, applications and processes to execute the global risk management strategy across the Banking Group
- Business unit level accountability, as the “first line of defence”, for the management of risks in alignment with the Banking Group’s strategy
- Independent oversight to ensure business unit level compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

The Banking Group manages risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports, including the effectiveness of the risk management systems, discussions covering the Banking Group’s response to emerging risk issues and trends, and that the requisite culture and practices are in place across the Banking Group, are conducted within the Banking Group and also by the Ultimate Parent Bank. The Board has responsibility for reviewing all aspects of risk management.

The Board has ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand. The Bank’s Risk Committee assists the Board in this function. The role of the Risk Committee is to assist the Board in the effective discharge of its responsibilities for business, market, credit, operational, compliance, liquidity, product and reputational risk management, and to liaise and consult with the Ultimate Parent Bank Risk Committee as required. Risk Management, via the Chief Risk Officer, coordinates risk management activities directly between Business Unit risk functions and Ultimate Parent Bank Group Risk Management functions.

The risk management process is subject to oversight by the Risk Committee of the Ultimate Parent Bank Board. This includes the review of risk portfolios and the establishment of prudential policies and controls.

The Banking Group’s risk management policies are essentially the same as the Ultimate Parent Bank, but are tailored where required to suit the local New Zealand regulatory and business environment.

The Audit Committee has responsibility for ensuring the integrity of the Banking Group’s financial controls, reporting systems and internal audit standards. It meets at least four times

a year and reports directly to the Board. All members of the Audit Committee are non-executive directors.

Financial risk management

Refer to note 18 for detailed disclosures on the Banking Group’s financial risk management policies.

Operational Risk

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to the Banking Group’s reputation.

Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Risk Management is responsible for establishing the Banking Group’s operational risk framework and associated Banking Group-wide policies. Business units are responsible for the identification, analysis, assessment and treatment of operational risks on a day-to-day basis.

Business units have primary responsibility for the identification and management of operational risk with executive oversight provided through business unit Risk Forums. The Bank’s Operational Risk Executive Committee (OREC) undertakes the governance function through the bi-monthly monitoring of operational risk performance across the Banking Group. The Board and Risk Management conduct effective oversight through the approval of operational risk policies and frameworks and monitoring key operational risk metrics.

Compliance

The Banking Group conducts its business in accordance with all relevant compliance requirements. In order to assist the Banking Group identify, manage, monitor and measure its compliance obligations, the Banking Group has a comprehensive compliance framework in place, which addresses both external (regulatory) and internal compliance.

Risk Management, in conjunction with business unit staff ensure the Banking Group operates within a compliance infrastructure and framework that incorporates new and changing business obligations and processes.

The compliance policies and their supporting framework seek to minimise material risks to the Banking Group’s reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. Business units have primary responsibility for the identification and management of compliance. Risk Management provides policy and framework, measurement, monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. The Bank’s OREC, the Chief Risk Officer, the Board and the Risk Committee of the Ultimate Parent Bank Board conduct board and executive oversight.

Internal Audit

Internal Audit is a function independent of management whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. Operating under a Board approved Charter,

NOTES TO THE FINANCIAL STATEMENTS

the reporting line for the outcomes of work conducted by Internal Audit is direct to the Chair of the Audit Committee, with a direct communication line to the Chief Executive Officer and the external auditor.

The Internal Audit Plan is developed utilising a risk based approach and is refreshed on a quarterly basis. The Audit Committee approves the plan, the associated budget and any changes.

All audit activities are conducted in accordance with local and international auditing standards, and the results of the activities are reported to the Audit Committee, Risk Committee and management. These results influence the performance assessment of business heads.

Furthermore, Internal Audit monitors the remediation of audit issues and highlights the current status of any outstanding audits.

HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

	Year to 30/09/2016	Year to 30/09/2015	Year to 30/09/2014	Year to 30/09/2013	Year to 30/09/2012
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Interest income	6,423	6,926	6,272	5,957	6,017
Interest expense	3,421	4,051	3,529	3,344	3,335
Net interest income	3,002	2,875	2,743	2,613	2,682
Non-interest income	852	1,175	1,085	823	1,006
Operating income	3,854	4,050	3,828	3,436	3,688
Operating expenses	1,599	1,512	1,489	1,512	1,742
Credit impairment charge / (release)	150	74	(16)	63	193
Profit before income tax	2,105	2,464	2,355	1,861	1,753
Income tax expense	570	681	639	490	428
Profit after income tax	1,535	1,783	1,716	1,371	1,325
Dividends paid	(1,363)	(1,760)	(2,353)	(1,065)	(1,150)
Share capital issued	-	675	970	300	-
	As at 30/09/2016	As at 30/09/2015	As at 30/09/2014	As at 30/09/2013	As at 30/09/2012
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Total impaired assets	426	382	634	901	1,366
Total assets	160,819	147,527	128,915	120,444	121,564
Total liabilities	148,109	135,074	117,134	108,990	110,653
Equity	12,710	12,453	11,781	11,454	10,911

The amounts included in this summary have been taken from the audited financial statements of the Banking Group.

GENERAL DISCLOSURES

General Matters

The Disclosure Statement has been issued in accordance with the Order.

The Bank is incorporated under the Companies Act 1993. The Bank is wholly owned by its Immediate Parent Company and ultimately by the Ultimate Parent Bank. The Immediate Parent Company of the Bank is incorporated in New Zealand and owned by ANZ Funds Pty Limited and the Ultimate Parent Bank (both incorporated in Australia). The address for service for the Ultimate Parent Bank is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

The Immediate Parent Company has the power under the Bank's Constitution to appoint any person as a Director of the Bank either to fill a casual vacancy or as an additional Director or to remove any person from the office of Director, from time to time by giving written notice to the Bank. No appointment of a new Director may occur unless the RBNZ confirms that it does not object to the appointment.

Material Financial Support

In accordance with requirements issued by APRA pursuant to its Prudential Standards, the Ultimate Parent Bank may not provide material financial support to the Bank contrary to the following:

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank
- the Ultimate Parent Bank should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations)
- the Ultimate Parent Bank should not enter into cross default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations
- the Board of the Ultimate Parent Bank in determining limits on acceptable levels of exposure to the Bank should have regard to:
 - the level of exposure that would be approved to third parties of broadly equivalent credit status. In this regard, prior consultation (and in some cases approval) is required before entering exceptionally large exposures
 - the impact on the Ultimate Parent Bank's capital and liquidity position and its ability to continue operating in the event of a failure by the Bank
- the level of exposure to the Bank not exceeding:
 - 50% on an individual exposure basis
 - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank) of the Ultimate Parent Bank's capital base.

Additionally, the Ultimate Parent Bank may not provide material financial support in breach of the Australian Banking Act (1959). This requires APRA to exercise its powers and functions for the protection of a bank's depositors and in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia shall be available to meet that bank's deposit liabilities in Australia in priority to all other liabilities of the bank.

The Ultimate Parent Bank has not provided material financial support to the Bank contrary to any of the above requirements.

Guarantors

No material obligations of the Bank are guaranteed as at 18 November 2016.

ANZNZ Covered Bond Trust

Certain debt securities (Covered Bonds) issued by the Bank's wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, are guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 30 September 2016 of NZ\$6,218 million, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in note 31.

Other Matters

APRA has reviewed the level of exposures that can be provided to the respective New Zealand banking subsidiaries and branches (New Zealand operations) of the four Australian parent banks, including the Ultimate Parent Bank.

APRA has confirmed that by 1 January 2021 no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital can comprise non-equity exposures to its New Zealand operations during ordinary times. Exposures in excess of this limit must be reduced in equal percentages over the five year transition period and may not increase above the exposures as at 30 June 2015. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

The Ultimate Parent Bank established a New Zealand branch which was registered on 5 January 2009. The Bank sells, from time-to-time, residential loans and mortgages into the NZ Branch to provide funding for the Bank's business. As at 30 September 2016, the NZ Branch held approximately NZ\$6.0 billion of residential loans. To satisfy APRA's requirements described above, the Bank intends to repay this funding at approximately NZ\$1.6 billion per annum over the five year transition period ending 31 December 2020.

APRA has also clarified that contingent funding support by the Ultimate Parent Bank to the Bank during times of financial stress must be provided on terms that are acceptable to APRA and, in aggregate with all other exposures to its New Zealand operations, must not exceed 50% of the Ultimate Parent Bank's Level 1 Tier 1 capital. At present, only covered bonds meet APRA's criteria for contingent funding. On this basis, we believe that the Ultimate Parent Bank will continue to be able to provide financial support to the Bank.

GENERAL DISCLOSURES

Credit Rating Information

As at 18 November 2016 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 7 July 2016, Standard & Poor's changed the outlook on the Bank from Stable to Negative. On 18 August 2016, Moody's Investors Service changed the outlook on the Bank from Stable to Negative.

The Bank's credit ratings are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA-	Outlook Negative
Moody's Investors Service	Aa3	Outlook Negative
Fitch Ratings	AA-	Outlook Stable

The following table describes the credit rating grades available:

	Standard & Poor's	Moody's Investors Service	Fitch Ratings
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	-	RD & D

Credit ratings from Standard & Poor's and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories. Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the "Aa" to "Caa" classifications, with 1 indicating the higher end and 3 the lower end of the rating category.

CONDITIONS OF REGISTRATION

Conditions of Registration, applicable as at 30 September 2016. These Conditions of Registration have applied from 1 November 2015.

The registration of ANZ Bank New Zealand Limited ("the bank") as a registered bank is subject to the following conditions:

1. That-
 - (a) the Total capital ratio of the banking group is not less than 8%;
 - (b) the Tier 1 capital ratio of the banking group is not less than 6%;
 - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
 - (d) the Total capital of the banking group is not less than \$30 million; and
 - (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
 - (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document: "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration,-

the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

"Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1A. That-

- (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ("ICAAP")" (BS12) dated December 2007;
- (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015; and

- (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

- (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875% - 2.5%	60%

- (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
- (c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration, —

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

- (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
- (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus

CONDITIONS OF REGISTRATION

the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business-

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,-

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit Rating of the bank ¹	Connected exposure limit (% of the banking group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

¹ This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the bank complies with the following corporate governance requirements:
 - (a) the board of the bank must have at least five directors;
 - (b) the majority of the board members must be non-executive directors;
 - (c) at least half of the board members must be independent directors;
 - (d) an alternate director,—

- (i) for a non-executive director must be non-executive; and
 - (ii) for an independent director must be independent;
- (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
 - (f) the chairperson of the board of the bank must be independent; and
 - (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports to or is accountable directly to the chief executive officer, is made in respect of the bank unless:
 - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
 - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
 - (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
 - (b) the committee must have at least three members;
 - (c) every member of the committee must be a non-executive director of the bank;
 - (d) the majority of the members of the committee must be independent; and
 - (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.
10. That a substantial proportion of the bank's business is conducted in and from New Zealand.
11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
 - (a) that the bank's clearing and settlement obligations due on a day can be met on that day;

CONDITIONS OF REGISTRATION

- (b) that the bank's financial risk positions on a day can be identified on that day;
- (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
- (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.

12. That:
- (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
 - (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decision relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
 - (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.
13. That the banking group complies with the following quantitative requirements for liquidity-risk management:
- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
 - (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
 - (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
 - (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
 - (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
 - (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition, —

"total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

"SPV" means a person—

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

"covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

16. That—
- (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
 - (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
 - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
 - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
 - (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

CONDITIONS OF REGISTRATION

- (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
 - (i) all liabilities are frozen in full; and
 - (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
- (b) apply a *de minimis* to relevant customer liability accounts;
- (c) apply a partial freeze to the customer liability account balances;
- (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
- (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
- (f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That the bank has an Implementation Plan that—
 - (a) is up-to-date; and
 - (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—
 - (a) at the product-class level lists all liabilities, indicating which are—
 - (i) pre-positioned for Open Bank Resolution; and
 - (ii) not pre-positioned for Open Bank Resolution;
 - (b) is agreed to by the Reserve Bank; and
 - (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities" and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank

Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of APIL with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of APIL arising in the loan-to-valuation measurement period.
22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of ANPIL with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of ANPIL arising in the loan-to-valuation measurement period.
23. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non-Auckland loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non-Auckland loans arising in the loan-to-valuation measurement period.
24. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"banking group" means ANZ Bank New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 24, —

"ANPIL", "APIL", "loan-to-valuation ratio", "non-Auckland loan", "qualifying new mortgage lending amount in respect of [...]" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated November 2015:

"loan-to-valuation measurement period" means—

- (a) the six calendar month period ending on the last day of April 2016; and
- (b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of May 2016.

DIRECTORATE AND AUDITOR

Any document or communication may be sent to any Director at the Registered Office. The document or communication should be marked for the attention of that Director.

Directors' interests

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the following procedures are adopted:

- At least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

In addition to the written disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items.

The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

Transactions with Directors

No Director has disclosed that he/she or any immediate relative or professional associate has any dealing with the Banking Group which has been either entered into on terms other than those which would in the ordinary course of business be given to any other person of like circumstances or means or which could otherwise be reasonably likely to influence materially the exercise of the Director's duties as a Director of the Bank.

Board Members as at 18 November 2016

Independent Non-Executive Director and Chair

John Frederick Judge

B Com, FCA
Company Director
Auckland, New Zealand

Mr Judge is a member of the Audit Committee, the Human Resources Committee and the Risk Committee.

Other directorships: Aquatx Holdings Limited, Biotelliga Limited, Biotelliga Holdings Limited, Biotelliga Nominees Limited, Endogen Limited, Fletcher Building Limited, Fletcher Building Industries Limited, Janohn Limited, Sebca Limited, John Judge Limited, Cup Limited, Sails Friday Limited, The New Zealand Initiative Limited, Hydraulink Fluid Connectors Limited, Analog Digital Instruments Limited, Hydraulink Australia Pty Limited, ADInstruments Pty Limited

Executive Director

David Duncan Hisco

B Bus, MBA
Chief Executive, ANZ Bank New Zealand Limited
Auckland, New Zealand

Other directorships: ANZ Holdings (New Zealand) Limited

Non-Executive Directors

Shayne Cary Elliott

B Com
Chief Executive Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Mr Elliott is a member of the Human Resources Committee.

Other directorships: ANZ Holdings (New Zealand) Limited, Australia and New Zealand Banking Group Limited and the Financial Markets Foundation for Children

Nigel Henry Murray Williams

B Com
Chief Risk Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Other directorships: Shanghai Rural Commercial Bank Co. Limited

Mr Williams is a member of the Risk Committee and Audit Committee.

DIRECTORATE AND AUDITOR

Independent Non-Executive Directors

Antony John Carter

BE (Hons), ME, FNZIM
Company Director
Auckland, New Zealand

Mr Carter is the Chair of the Risk Committee and a member of the Audit Committee and the Human Resources Committee.

Other directorships: Air New Zealand Limited, Avonhead Mall Limited, Blues Management Limited, Fletcher Building Limited, Fisher & Paykel Healthcare Corporation Limited, Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited, Fletcher Building Industries Limited, Loughborough Investments Limited, Modern Merchants Limited, Strategic Interchange Limited, Tetrad Corporation Limited, Capital Training Limited

Mark John Verbiest

LLB, CFInstD
Company Director
Wanaka, New Zealand

Mr Verbiest is the Chair of the Audit Committee and a member of the Human Resources Committee and the Risk Committee.

Other directorships: Bear Fund NZ Limited, Freightways Limited, Spark New Zealand Limited, Willis Bond Capital Partners Limited, Willis Bond General Partner Limited, MyCare Limited, The Treasury

Joan Withers

MBA, AFInstD
Company Director
Auckland, New Zealand

Ms Withers is the Chair of the Human Resources Committee and a member of the Risk Committee and the Audit Committee.

Other directorships: Mercury NZ Limited, Television New Zealand Limited, The Warehouse Group Limited, TVNZ International Limited, TVNZ Investments Limited, Freeview Television Limited, NZOOM Limited

Auditor

KPMG

Chartered Accountants
10 Customhouse Quay
P O Box 996
Wellington, New Zealand

DIRECTORS' STATEMENT

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014
- The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2016, after due enquiry, each Director believes that:

- ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period
- Credit exposures to connected persons were not contrary to the interests of the Banking Group
- ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 18 November 2016.

Antony Carter



Shayne Elliott



David Hisco



John Judge



Mark Verbiest



Nigel Williams



Joan Withers





INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ANZ Bank New Zealand Limited

Report on the Banking Group Disclosure Statement

We have audited the accompanying financial statements and supplementary information of ANZ Bank New Zealand Limited ("the Bank") and its subsidiaries ("Banking Group") on pages 3 to 66 of the Disclosure Statement. The financial statements comprise the balance sheet as at 30 September 2016, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Banking Group. The supplementary information comprises the information that is required to be disclosed in accordance with Schedules 2, 4, 7, 11, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder of the Bank those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder of the Bank as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the disclosure statement

The Directors are responsible on behalf of the Banking Group for the preparation of the Banking Group Disclosure Statement, including financial statements prepared in accordance with Clause 24 of the Order, generally accepted accounting practice in New Zealand, that is a fair presentation of the matters to which they relate. The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Banking Group financial statements that are free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's responsibility

Our responsibility is to express an opinion on the Disclosure Statement, including the financial statements prepared in accordance with Clause 24 of the Order and the supplementary information (excluding the supplementary information related to Capital Adequacy) disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Banking Group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Banking Group financial statements (excluding the supplementary information relating to Capital Adequacy). The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Banking Group's preparation of the financial statements that present fairly the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Disclosure Statement

In our opinion the Disclosure Statement of the Banking Group on pages 3 to 66 (excluding supplementary information):

- complies with generally accepted accounting practice in New Zealand
- complies with International Financial Reporting Standards
- give a true and fair view of the financial position of the Banking Group as at 30 September 2016 and of the financial performance and cash flows of the Banking Group for the year ended on that date.

Opinion on supplementary information

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order:

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration
- is in accordance with the books and records of the Banking Group in all material respects
- fairly states the matters to which it relates in accordance with those Schedules.



Report on supplementary information relating to Capital Adequacy

We have reviewed the supplementary information relating to Capital Adequacy information, as disclosed in note 29 of the Disclosure Statement for the year ended 30 September 2016.

Directors' responsibility for the supplementary information relating to Capital Adequacy

The Directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 11 of the Order and prepared in accordance with the Capital Adequacy Framework (internal models based approach) (BS2B) and described in note 29 of the Disclosure Statement.

Auditor's responsibility

Our responsibility is to express an opinion on the supplementary information relating to Capital Adequacy based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements and plan and perform the review to obtain limited assurance about whether the supplementary information relating to Capital Adequacy information is, in all material respects:

- prepared in accordance with the Bank's conditions of registration
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand
- disclosed in accordance with Schedule 11 of the Order.

A review is limited primarily to enquiries of the Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the Capital Adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

A review of the Capital Adequacy information in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy disclosures.

Review opinion on the supplementary information relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, and disclosed in note 29 of the Disclosure Statement, is not, in all material respects:

- prepared in accordance with the Bank's conditions of registration
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand
- disclosed in accordance with Schedule 11 of the Order.

Review on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

Independence

Our firm has provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Wellington
18 November 2016

